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APPENDIX

Supreme Court of the United States

October Term, 1973
No. 73-187

KEWANEE OIL COMPANY,
Petitioner,

vs.

BICRON CORPORATION, *et al.*,
Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

Petition for Certiorari Filed July 27, 1973
Certiorari Granted October 9, 1973

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Civil No. C70-363

In the United States District Court

FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

KEWANEE OIL COMPANY,
Plaintiff,

vs.

BICRON CORPORATION, LLOYD H. HAMNER, JULIOUS M. MENEFEE, WILLIAM P. NOVAK, THOMAS H. RICHERT, RICHARD W. SPURNEY and HARRY SUSCHECK,
Defendants.

RELEVANT DOCKET ENTRIES

4-17-70. Complaint filed.

4-17-70. Motion of pltf. for order to show cause and temporary restraining order with affidavits filed. 7 copies to Marshal.

4-17-70. Order that defts. show cause on 4-27-70 at 10:00 a.m. why preliminary injunction should not issue; further that defts. are temporarily restrained from taking actions as set forth, said restraining order to expire within 10 days unless court orders extension filed. Connell, J. 7 true copies to Marshal.

4-17-70. Summons issued. 7 copies of complaint and summons to Marshal.

4-17-70. Bond for temporary restraining order filed. ($5000—Insurance Co. of North America)

5-1-70. Order that temporary restraining order issued on 4-17-70 be extended until final determination on preliminary injunction filed, Kalbfleisch, J. Copies to counsel in Court.

5-1-70. Order under Rule 30(b), FRCP, governing parties as to disclosure of trade secrets, and that all papers involving trade secrets be kept sealed, etc. filed, Kalbfleisch, J. Copies to counsel in Court.

5-1-70. Bond on temporary restraining order filed. ($20,000—Insurance Co. of North America)

5-4-70. Order that $5000 bond previously posted by pltf. is null and void and that principal and surety are exonerated etc. filed, Kalbfleisch, J. Copies to Troxell and McCoy.

5-6-70. Order overruling motion of defts. to quash depositions set for 5-6-70 and subpoena filed, Kalbfleisch, J. Copies to Troxell and McCoy.

5-25-70. Minutes of proceedings filed. Hearing on prel. injunction resumed but not concluded; request of defts. to increase bond to $50,000—granted, bond to be without surety except as to pltf. itself—counsel to prepare and approve entry; previous bond of $20,000 to be exonerated; adjourned to 9:30 a.m. tomorrow, Kalbfleisch, J. Czompoly, R.

6-4-70. Bond of temporary restraining order in sum of $50,000 filed. Approved, Kalbfleisch, J.

6-22-70. Answer of deft. Thomas H. Richert filed. Copy mailed 6-19-70.

7-16-70. Proposed findings of fact and conclusions of law and order for permanent injunction by plaintiff filed. (VAULT ROOM 330)

7-16-70. Proposed findings of fact by the defendant lodged. Copy acknd. 7-16-70.

7-16-70. Proposed conclusions of law by the defendant lodged. Copy acknd. 7-16-70.

7-22-70. Answer of defts. Bicron Corp., Hamner, Menefee, Novak, Spurney and Suscheck filed. Copy acknowledged 7-22-70.

8-4-70. All exhibits, transcripts and proposed findings kept in Clerk's Vault Room 330 delivered to Judge Kalbfleisch's chambers.

11-24-70. ALL PAPERS IN CASE FILE AND ALL EXHIBITS ORDERED IMPOUNDED BY JUDGE KALBFLEISCH—ALL RECEIVED FROM JUDGE KALBKLEISCH 11-24-70 AND ALL PLACED IN ONE BOX IN VAULT ROOM 330.

11-24-70. Findings of fact and conclusions of law filed, Kalbfleisch, J. Copies to Troxell, McCoy and Zidar. (VAULT 330)

11-24-70. Order for permanent injunction restraining defts. from divulging and using trade secrets as set forth in findings etc. filed, Kalbfleisch, J. Copies as above. (VAULT 330)

11-24-70. Order impounding exhibits and memo until further order of Court, except that Clerk may on inquiry disclose those conclusions of law and fact which do not contain any naming or description of equipment, materials or procedures mentioned in exhibits and memo of decision concerning production of sodium iodide thallium activated scintillation crystals filed, Kalbfleisch, J. Copies as above. (VAULT 330)

12-2-70. Notice of appeal by defs. Bicron, Hamner, Menefee, Novak, Spurney and Suscheck filed. Copies to Attys. Troxell and Zidar by Clerk 12-2-70.

12-4-70. Bond for Costs on appeal filed. (Ohio Casualty Ins. Co.)

12-7-70. Motion of pltf. for injunction pending appeal filed. Mailed 12-7-70.

12-7-70. Notice of Appeal by pltf. filed. Copy by Clerk to McCoy, Zidar, Abeles & Troxell—12-8-70.

12-14-70. Order granting motion of plaintiff for injunction pending appeal; defendants Bicron Corp., Lloyd Hamner, Julious Menefee, Harry Suscheck, Richard W. Spurney, Wm. P. Novak, and Thomas Richert are enjoined from disclosing, etc. trade secrets: 1(b); 1(c); 1(d); 1(e); and 1(i); 3(b)(ii) and (iv); 3(e); 4(d); 4(e); and 4(g), as each appear in plaintiff's Exhibit 56, until the U.S.C.A. for the Sixth Circuit rules upon, and decides the issues raised by notices of appeal; within order is in addition to permanent injunction order filed 11-24-70; order conditioned upon filing of $50,000 bond approved by the Court filed, Kalbfleisch, J. Copies to Troxell, McCoy, and Zidar.

12-14-70. Bond for injunction pending appeal filed.

1-5-71. Secrecy agreement of Gates Legal Publishing Co. re: orders of 5-1-70 and 11-25-70 filed.

1-11-71. Certified original pleadings mailed to the Clerk for the Court fo Appeals for the Sixth Circuit by Registered Mail—No. 754701.

1-18-71. Original pleadings filed in U.S.C.A. 6th Circuit on 1-15-71. (71-1041, 71-1042)

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION
(Title omitted in printing)

COMPLAINT

(Filed April 17, 1970)

FIRST CAUSE OF ACTION

1. Plaintiff, Kewanee Oil Company (hereinafter referred to as "KEWANEE"), is a corporation incorporated under the laws of the State of Delaware and has its principal place of business in the State of Pennsylvania.

2. Defendant, Bicron Corporation (hereinafter referred to as "BICRON"), is a corporation incorporated under the laws of the State of New Jersey and has its principal place of business in the State of Ohio. Defendants, Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Thomas H. Richert, Richard W. Spurney and Harry Suscheck (hereinafter referred to as "HAMNER," "MENEFEE," "NOVAK," "RICHERT," "SPURNEY" and "SUSCHECK"), are each citizens of the State of Ohio.

3. The jurisdiction of this Court is invoked pursuant to Section 1332, Title 28, United States Code, and the matter in controversy exceeds, exclusive of interest and costs, the sum of Ten Thousand Dollars.

4. Harshaw Chemical Company (hereinafter referred to as "HARSHAW") is an unincorporated division of KEWANEE. Part of HARSHAW's activities involve growing synthetic crystals and its experience in this area dates back to 1936. Since 1951 HARSHAW has designed and manufactured scintillation crystals, which when coupled

with a photomultiplier tube, may be used to detect many types of ionizing radiation. Examples of specific uses to which such crystals are put include geophysical surveys for uranium and oil, clinical measurement of radioisotopes and radiation monitoring of personnel exposure.

5. Defendant HAMNER was employed by Hamner Electronics Company on or about January 1, 1955. In the course of his employment, HAMNER executed on or about March 11, 1964, an Agreement (hereinafter referred to as the "HAMNER AGREEMENT") which provided in part:

> "The Employee agrees to carefully guard and keep all secret or confidential information which shall or may concern the Company, its inventions, discoveries, improvements, techniques, methods of manufacture, finances, or other trade secrets, and he shall at no time, either during or after his employ by the Company, disclose, directly or indirectly, any such information without the prior written consent of the Company."

HARSHAW acquired control of Hamner Electronics Company and inured to the terms of the HAMNER AGREEMENT. HAMNER while employed by plaintiff became familiar with the various aspects, including production, sale and use, of synthetic crystals. Prior to his association with HARSHAW, HAMNER had no experience with production of such crystals.

6. Defendant MENEFEE, a physicist and mathematician, was employed by HARSHAW on or about February 3, 1964, and while so employed was a Product Group Manager for nuclear detectors and systems. In this capacity he was actively involved in the research, development and production of scintillation crystals such as sodium iodide (thallium activated) crystals, which gave him access to

the following: synthesis and purification procedures; quality reports and specifications; apparatus and methods utilized in the growth, fabrication and evaluation of such crystals; packaging techniques and procedures and the materials used therewith; customer lists; vendor lists; and confidential operational data. An employment application, which was signed by MENEFEE on February 3, 1964, included an earlier form of patent and confidential information agreement (hereinafter referred to as "APPLICATION AGREEMENT") which was uniformly required by HARSHAW in the employment of all such technical personnel. The APPLICATION AGREEMENT provided in part:

> "I will not at any time disclose any confidential information obtained by me during or as a result of my employment by the Company."

On February 8, 1968, MENEFEE and KEWANEE entered into an "Employee Agreement Relating to Inventions, Patents and Confidential Information" (hereinafter referred to as the "TRADE SECRET AGREEMENT"). Paragraphs 2 and 4 of the TRADE SECRET AGREEMENT provided as follows:

> "(2) I will keep and maintain adequate and current written records of all such inventions at all stages thereof, in the form of notes, sketches, drawings, and reports relating thereto, and including copies and reproductions thereof, which records shall be and remain the property of and available to the Company at all times. I will not at any time remove such records from the premises of the Company without the knowledge and consent of my superiors, and upon termination of my employment with the Company will turn over all such records to my superiors."

"(4) Unless authorized in writing, or instructed, by the Company, I will not during or after my employment disclose to others, or use, any of the Company's inventions or discoveries or its secret or confidential information, knowledge or data which I may obtain during the course of my employment relating to its business, customers, business methods, formulae, processes, machines, manufactures, or compositions, whether or not developed by me. The 'Company's inventions and discoveries, and its secret and confidential information, knowledge and data' as used in this paragraph shall be deemed to include all inventions and discoveries and secret and confidential information, knowledge and data in its possession whether owned by it or acquired from others under obligation to maintain confidential."

7. Defendant NOVAK, a senior research technician, was employed by HARSHAW on or about April 19, 1962, and was involved in and familiar with numerous operations pertaining to the forming, encapsulating and testing of scintillation crystals. NOVAK was later elevated to Development Engineer, wherein he was engaged on a highly secretive project involving scintillation crystals and gamma ray cameras. On or about April 18, 1962 he signed an employment application which contained the APPLICATION AGREEMENT. On or about February 8, 1968, NOVAK and KEWANEE concurrently executed the TRADE SECRET AGREEMENT. Before joining HARSHAW, NOVAK had no experience with such crystals or their application.

8. Defendant RICHERT, a research chemist, was employed by HARSHAW on or about February 7, 1962, and was actively engaged in the synthesis and purification of raw materials used in the production of synthetic crystals,

including scintillation crystals such as sodium iodide (thallium activated) crystals. Additionally, RICHERT was actively engaged in the production of materials used in the packaging of such crystals. On or about February 1, 1962 he signed an employment application which contained the APPLICATION AGREEMENT. Before joining HARSHAW, RICHERT had no experience with any such crystals.

9. Defendant SPURNEY, a laboratory technician, was employed by HARSHAW on or about May 31, 1961, and was involved with the refinement of existing crystal growth procedures and engaged in research on new scintillation crystal growth procedures. While in HARSHAW's employ he was also engaged in the operation of both developmental and plant scale equipment for growing synthetic crystals, including scintillation crystals such as sodium iodide (thallium activated) crystals. On or about May 31, 1961 he signed an employment application which contained the APPLICATION AGREEMENT. Before joining HARSHAW, SPURNEY had no experience with scintillation crystals.

10. Defendant SUSCHECK, a Production Manager, was employed by HARSHAW on or about May 1, 1963, and was actively engaged in the design and production of encapsulated scintillation crystals. In this capacity he was fully knowledgeable with crystal cutting, crystal surface preparation and materials of construction used in packaging such crystals such as metals, glass types, sealing and bonding agents, reflector materials and optical coupling materials. On or about April 6, 1963 he signed an employment application which contained the APPLICATION AGREEMENT. On February 8, 1968, SUSCHECK and KEWANEE concurrently executed the TRADE SECRET AGREEMENT. Before joining HARSHAW, SUSCHECK had no experience with scintillation crystals.

11. HARSHAW has spent and is continuing to spend many thousands of dollars in the maintenance and operation of laboratory and manufacturing facilities used in developing, improving and producing synthetic crystals, including scintillation crystals, in advertising such crystals, and in educating and familiarizing customers in the use of such crystals. The creativity of its employees, particularly those engaged in the design and manufacture of scintillation crystals, has led to many unique and complex developments, some of which are now being used in HARSHAW's products. A great many of these developments have not been revealed to the public or to HARSHAW's competitors, but have been treated by HARSHAW as trade secrets and confidential technical information.

12. The areas in which trade secrets and confidential technical information reside and are known by one or more of the individual defendants, HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK, are described and identified for the purpose of this Complaint, but are not limited to the following:

(a) The synthesis and purification procedures, processes, and formulae for the preparation of raw materials such as sodium iodide and thallium iodide;

(b) The growing procedures, processes and operational steps for converting the highly pure raw materials such as sodium iodide and thallium iodide into crystal ingots;

(c) The techniques, procedures, processes and operational steps for improving the yield of saleable crystal material;

(d) The techniques, procedures, processes and operational steps for converting such crystal material into a preselected form;

(e) The techniques, procedures, processes and operational steps for encapsulating such crystals;

(f) The techniques, procedures, processes and operational steps for reclaiming scrap crystal; and

(g) The various equipment containing proprietary designs, materials of construction therefor and materials used in conjunction with items (a) to (f) inclusive, as set forth above.

13. In order to retain its competitive position, HARSHAW has regularly and systematically endeavored to maintain the secrecy and confidentiality of all of its trade secrets and confidential information, including that specifically identified in Paragraph 11 above. Its efforts in this regard have included, but are not limited to, the following activities:

(a) requiring each employee having access to its trade secrets and confidential technical information to execute the APPLICATION AGREEMENT and/or the TRADE SECRET AGREEMENT;

(b) advising, instructing and requiring each of its employees on maintaining the secrecy and confidentiality thereof;

(c) limiting the access to its research and development and engineering departments to those employees concerned with the operation of such departments;

(d) requiring visitors to sign-in before being admitted to its facilities and further requiring that they be accompanied by authorized personnel;

(e) limiting the activities which can be observed by such visitors;

(f) marking prints and other materials with a notice of confidentiality;

(g) conspicuously posting a copy of Section 1333.51, Ohio Revised Code, which makes the theft of trade secrets a crime in Ohio; and

(h) advising, instructing and requiring each employee leaving the employ of HARSHAW that he must not take with him or thereafter use or disclose any of HARSHAW's trade secrets or confidential information.

The individual defendants, HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK, were likewise fully advised and instructed by HARSHAW in these particulars. Insofar as plaintiff knows, this policy of HARSHAW heretofore has been successful in protecting the confidentiality of its trade secrets and confidential technical information.

14. The trade secrets and confidential technical information of HARSHAW has enabled it to become a leader in the field of synthetic crystals. The work of HARSHAW during the employment of HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK has resulted in substantial technological advances in the field of growing scintillation crystals which has and will assure the continuing commercial leadership of HARSHAW. The competitive position of HARSHAW gained by its extensive research and development will be irreparably damaged if its trade secrets and confidential technical information are used by or divulged to competitors.

15. The individual defendants HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK were key employees in the scintillation crystal operation of

HARSHAW's efforts in recent years, and they jointly and severally had access to the trade secrets and confidential technical information applicable to the areas set forth in Paragraph 11. Substantially all of the knowledge gained by HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK in the field of scintillation crystals was gained while these men were employed by HARSHAW and had access to the existing and recently developed trade secrets and confidential technical information.

16. On or about July 1, 1969, HAMNER's employment contract with Hamner Electronics was terminated and he was elevated to Marketing Manager For Electronics. Unexpectedly and without warning HAMNER, MENEFEE, NOVAK and SUSCHECK resigned their employment with HARSHAW. HAMNER indicated that he was resigning to go into the investment financing business in New York, and his termination was effective on August 15, 1969. MENEFEE stated that he was resigning in order to start his own nuclear consulting business, and his termination was effective on July 31, 1969. NOVAK gave no reason for his resignation, and his termination was effective on or about September 12, 1969. SUSCHECK gave as a reason for resigning the availability of an opportunity to become part of a new business venture dealing with plastics, and his termination was effective on August 15, 1969. RICHERT tendered his resignation on August 15, 1968, in order to accept a one year teaching position at John Carroll University, and his termination was effective on August 30, 1968. SPURNEY resigned in 1966 to accept a position with the General Electric Company, and his termination was effective on December 15, 1966.

17. After an extensive preliminary investigation into the mass resignation described herein, it was learned and plaintiff on information and belief avers that:

(a) Before July 31, 1969, one or more of the individual defendants, HAMNER, MENEFEE, NOVAK and SUSCHECK decided to leave HARSHAW to form a competing company which would use the trade secrets and confidential technical information of HARSHAW in order to successfully produce and sell synthetic crystals.

(b) The originator(s) of the scheme then solicited and enticed others to join with him (them) until the group consisted of HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK.

(c) As the plan progressed, HAMNER, MENEFEE, NOVAK and SUSCHECK purposely spent time on Saturdays and Sundays at the HARSHAW plant under the pretext of tending to unfinished projects, when in reality they were using this opportunity to gain access to, uninterruptedly, large quantities of plaintiff's trade secrets and confidential information, including, but not limited to, drawings, reports, laboratory books, formulae, charts, lists of customers and accounts, sources of supply, and methods of production. In order to carry out their scheme, HAMNER solicited for several weeks prior to his termination, technical information concerning all phases of the production and encapsulating of scintillation crystals, from various HARSHAW employees, who unsuspectingly, and in light of HAMNER's high ranking position, were willing to respond to his probing questions in the belief that such was in the furtherance of HARSHAW's business. Unaware of the deceitful plan being perpetrated against it, HARSHAW permitted HAMNER, at his request, to remain on the premises until on or about September 1, 1969, despite the fact that his compensation ceased on August 15, 1969, on

the assumption that such additional time was required to bring to an orderly close certain sundry matters. In reality, HAMNER was using this additional time to complete the task of obtaining all the necessary trade secrets and confidential technical information of HARSHAW in order to enter into a competing business.

(d) The individual defendants constructed, had constructed for them, or leased a manufacturing facility located at 12345 Kinsman Road, Newbury, Ohio, which is suitable for the design, production, encapsulating and sale of synthetic crystals. In order to equip this facility, defendants have contracted at least one or more of HARSHAW's highly specialized suppliers and requested that he fabricate a component for them which forms an integral part of the crystal growing process. Specifically, the component involved is a seventeen inch diameter platinum crucible, such a crucible being suitable only for the growth of seventeen inch crystals. To date, HARSHAW believes it is the only producer of scintillation crystals in the world who is equipped and has the technical know-how and skill to grow and encapsulate a seventeen inch crystal.

(e) HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK are the nucleus, if not the only initial employees, of BICRON. HAMNER is the President and MENEFEE the Vice President and Secretary of BICRON. HAMNER, MENEFEE, SPURNEY and SUSCHECK are all members of the Board of Directors of BICRON.

18. Plaintiff is informed and believes and upon such information and belief further alleges that defendant

HAMNER has knowingly, wrongfully and unlawfully breached and will continue to breach the HAMNER AGREEMENT by disclosing to BICRON and by divulging and using, as an officer, director and employee of BICRON, some or all of the trade secrets and confidential technical information of HARSHAW, including, but not limited to, such secrets and information which fall within the areas identified in Paragraph 11 above. That defendants RICHERT and SPURNEY have knowingly, wrongfully and unlawfully breached and will continue to breach the APPLICATION AGREEMENT by disclosing to BICRON, and by divulging and using as employees of BICRON, some or all of the trade secrets and confidential technical information of HARSHAW, including, but not limited to, such secrets and information which fall within the areas identified in Paragraph 11 above. That defendants MENEFEE, NOVAK and SUSCHECK have knowingly, wrongfully and unlawfully breached and will continue to breach the APPLICATION AGREEMENT and TRADE SECRET AGREEMENT by disclosing to BICRON, and by divulging and using as employees of BICRON, some or all of the trade secrets and confidential technical information of HARSHAW, including but not limited to, such secrets and information which fall within the areas identified in Paragraph 11 above.

19. Plaintiff upon information and belief further alleges that the aforementioned acts of the individual defendants done in violation of said AGREEMENT(s) have caused and will cause plaintiff damage in excess of $1,000,000. Also, on information and belief, the individual defendants are not capable of responding in damages if assessed against them. That it is wholly impossible for plaintiff to detect all of the violations of said AGREEMENT(s), and unless the individual defendants are enjoined and re-

strained from continuing to violate said AGREEMENT(s), plaintiff will be wholly without redress and will be deprived of any benefits whatever from said AGREEMENT(s).

SECOND CAUSE OF ACTION

20. The plaintiff repeats, reiterates and realleges each and every allegation contained in Paragraphs 1 to 19, inclusive, of this Complaint with the same force and effect as though herein pleaded at length.

21. The services performed by each of the individual defendants while in the employ of HARSHAW was special, unique and extraordinary, and HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK each held his positions of trust and confidence with HARSHAW.

22. HARSHAW has never permitted an individual to gain access to its trade secrets and proprietary information nor observe the highly confidential processes by which it produces and encapsulates scintillation crystals, unless and until it had first concluded that the individual in question was a loyal and trustworthy employee who was fully aware of his obligation to maintain such secrets and information in the strictest of confidence. Due to the confidential relationship which existed between HARSHAW and the individual defendants, which relationship was well recognized by each of said defendants, HARSHAW permitted HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK to each have at their disposal and use materials pertaining to HARSHAW's trade secrets and confidential technical information and further permitted them to observe and take part in the highly secretive processes by which scintillation crystals are grown and encapsulated.

23. Plaintiff is informed and believes, and on such information and belief alleges, that HAMNER, MENEFEE,

NOVAK, RICHERT, SPURNEY and SUSCHECK have each knowingly, wrongfully and unlawfully breached and will continue to breach his position of trust and confidential relationship and the duties associated therewith in one or more of the following respects:

(a) By disclosing to BICRON and by using and divulging, as an employee of BICRON, some or all of the trade secrets and confidential information of HARSHAW, including but not limited to such secrets and information which fall within the areas identified in Paragraph 11 above.

(b) By agreeing and conspiring together, prior to the termination of their employment with HARSHAW, to form a competing corporation to solicit or sell, or attempt to solicit or sell, to plaintiff's customers, products substantially the same or identical to the products of plaintiff, and in particular a grown seventeen inch diameter sodium iodide (thallium activated) crystal; the names and addresses of such customers and the data concerning their needs and prior purchases, not being ascertainable by the usual and ordinary methods employed in competitive businesses, but having been procured and obtained by defendants during their employment by HARSHAW.

(c) By carefully and painstakingly planning and plotting the entire program of deceit and subversion while still in the employ of HARSHAW, and taking the requisite preliminary steps, as evidenced by the fact that the corporate charter for BICRON was executed on August 14, 1969, to form the aforementioned competing corporation.

(d) By knowingly, wrongfully and unlawfully persuading, inducing and enticing one or more of the

individual defendants to leave the employ of HARSHAW and to go to work for BICRON, and by knowingly, wrongfully and unlawfully attempting to persuade, induce or entice individuals presently employed by and of great value to HARSHAW to terminate such employment and go to work for BICRON.

(e) By knowingly, wrongfully and unlawfully persuading, inducing and enticing one or more of the individual defendants to breach and continue to breach his AGREEMENT(s) with HARSHAW, and to breach and continue to breach his position of trust and confidential relationship with HARSHAW.

24. Plaintiff is informed and believes, and upon such information and belief further alleges, that the aforementioned acts of the individual defendants done in violation of their positions of trust and confidential relationships both before and after the termination of their employment with HARSHAW have caused plaintiff damage in excess of $1,000,000 and that further such acts done by said individual defendants will, unless restrained, cause irreparable injury and damage to plaintiff, the exact extent, nature and amount of such damage and injury being impossible to ascertain.

THIRD CAUSE OF ACTION

25. The plaintiff repeats, reiterates and realleges each and every allegation contained in Paragraphs 1 to 24, inclusive, of this Complaint with the same force and effect as though herein pleaded at length.

26. That defendant BICRON, in utter disregard of the contractual obligations and bounden duties of the individual defendants, as heretofore discussed with particularity, and in collaboration with one or more of said indi-

vidual defendants, following an adroitly conceived and cunningly devised plan, did undertake, systematically, to disrupt and destroy HARSHAW's whole business organization, by alluring, enticing and persuading HARSHAW's employees summarily to leave HARSHAW's services, and to combine, conspire and collaborate with BICRON, to deprive HARSHAW at once of the experienced services and aid of all those who, by reason of long experience and detailed knowledge gained while in HARSHAW's employ, had become most useful and necessary, and to induce said employees to bring along and carry over with them all the secret and confidential knowledge, education and experience which they had gained and acquired while in a position of trust and confidence with HARSHAW, to the end that BICRON, and those conspiring with it, might thereafter make full use of the same.

27. Upon information and belief, BICRON's product line and development work is now primarily confined to growing seventeen inch diameter sodium iodide (thallium activated) crystals, and the hiring of HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK is for the purpose of benefiting from the confidential information and manufacturing procedures gained by these individual defendants while working in highly secretive areas of HARSHAW's crystal operation. In this manner, BICRON is attempting to obtain a start in areas of competition with HARSHAW without the expense and time required to train technical personnel and develop independently a crystal growing facility. On information and belief, the hiring of HAMNER, MENEFEE, NOVAK and SUSCHECK as a "package" from HARSHAW was planned, encouraged and executed by BICRON over many weeks during which one or more of the individual defendants was persuaded by BICRON to abandon his duties at

HARSHAW and to become an employee and to work in the same capacities for BICRON as he did for HARSHAW.

28. On information and belief, BICRON intends to use HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK to establish an organization to design, develop, produce and sell scintillation crystals and, more specifically, to grow a seventeen inch diameter sodium iodide (thallium activated) crystal, which heretofore only HARSHAW had been capable of producing.

29. Plaintiff is informed and believes and on such information and belief alleges that BICRON is guilty of unfair competition, in one or more of the following respects:

(a) By knowingly, wrongfully and unlawfully persuading, inducing and enticing one or more of the individual defendants to leave the employ of HARSHAW and to accept employment with BICRON, and by knowingly, wrongfully and unlawfully attempting to persuade, induce or entice individuals presently employed by and of great value to HARSHAW to terminate such employment and go to work for BICRON.

(b) By knowingly, wrongfully and unlawfully persuading, inducing and enticing one or more of the individual defendants to breach and continue to breach his AGREEMENT(s) with HARSHAW, and to breach and continue to breach his position of trust and confidential relationship with HARSHAW.

(c) By knowingly, wrongfully and unlawfully soliciting one or more of the individual defendants to disclose the trade secrets and confidential technical information of HARSHAW, and then willfully appro-

priating and/or using same in order to successfully carry on the operations of BICRON.

(d) By unjustly enriching itself at the expense of HARSHAW, through the appropriation and/or use of HARSHAW's trade secrets and confidential technical information, whereby BICRON has obtained, without incurring any expense, the benefit of years of research and development which HARSHAW has conducted at a substantial cost in order to maintain its leadership in the industry as a manufacturer of high quality crystals.

30. Upon information and belief, one or more of the individual defendants HAMNER, MENEFEE, NOVAK and SUSCHECK, but for the enticement and inducement by BICRON, would have remained in the employ of HARSHAW, or would not have abruptly terminated his employment. By enticing these employees away from HARSHAW on such short notice, BICRON has caused and will continue to cause substantial and irreparable damage to HARSHAW. The sudden and unexpected departure of the above-identified defendants resulted in production delays attributable to the time required for finding and training personnel to replace HAMNER, MENEFEE, NOVAK and SUSCHECK, without the assistance of same. Consequently, plaintiff has suffered substantial monetary damages through loss of sales and increased operational expense.

31. Plaintiff has no adequate remedy at law for the relief sought herein and it will suffer irreparable injury unless injunctive relief is granted, since the disclosure and use of HARSHAW's trade secrets and confidential technical information will make it impossible to preserve its rights therein.

WHEREFORE, plaintiff prays that this Court:

A. Issue a permanent injunction upon final adjudication of this matter:

(1) Restraining HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK, and each of them, from breaching and violating their AGREEMENT(s) with HARSHAW and plaintiff.

(2) Restraining BICRON, its officers, agents and employees, HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK, and each of them, from communicating or divulging either orally or in writing or otherwise, to any person, firm, corporation, or other person whomsoever, any trade secrets or confidential information acquired by them, or imparted to them regarding the machinery, or any part thereof, tools, appliances, apparatus, formulae, processes, devices, methods, procedures, ingredients, inventions, experiments, experimental and research work, designs, drawings, plans, books, customers and suppliers of HARSHAW.

(3) Restraining BICRON, its officers, agents and employees, HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK, and each of them, from using any, some or all of the trade secrets and confidential technical information of HARSHAW.

(4) Restraining HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK from remaining in the employ of BICRON.

(5) Restraining BICRON, its officers, agents and employees, HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK, and each of them, from employing any other employee or former em-

ployee of HARSHAW, in product areas which could result in or encourage the disclosure and/or use of any trade secrets or confidential information acquired by him, or imparted to him in the course of his employment with HARSHAW, regarding the machinery, or any part thereof, tools, appliances, apparatus, formulae, processes, devices, methods, procedures, ingredients, inventions, experiments, experimental and research work, designs, drawings, plans, books, customers and suppliers of HARSHAW.

(6) Restraining BICRON, its officers, agents and employees, HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK, and any of them, from persuading, enticing and inducing any other employee or former employee of HARSHAW to disclose any trade secrets or confidential information acquired by him, or imparted to him in the course of his employment with HARSHAW, regarding the machinery, or any part thereof, tools, appliances, apparatus, formulae, processes, devices, methods, procedures, ingredients, inventions, experiments, experimental and research work, designs, drawings, plans, books, customers and suppliers of HARSHAW.

(7) Ordering BICRON, its officers, agents and employees, HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK, and all of them, to deliver up for destruction all documents, drawings, machines, and other matter disclosing, embodying, or intended for carrying out plaintiff's trade secrets and confidential technical information.

B. Issue a preliminary injunction, and pending a hearing upon the preliminary injunction and notice of same as required by law, issue a temporary restraining order, without notice:

(1) Restraining BICRON, its officers, agents and employees, HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK, and each of them, from communicating or divulging either orally or in writing, or otherwise, to any person, firm, corporation, or other person whomsoever, any trade secrets or confidential information acquired by them, or imparted to them regarding the machinery, or any part thereof, tools, appliances, apparatus, formulae, processes, devices, methods, procedures, ingredients, inventions, experiments, experimental and research work, designs, drawings, plans, books, customers and suppliers of HARSHAW.

(2) Restraining BICRON, its officers, agents and employees, HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK, and each of them, from using any, some or all of the trade secrets and confidential technical information of HARSHAW.

(3) Restraining BICRON, its officers, agents and employees, from employing HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK, or any of them, or from employing any other employee or former employee of HARSHAW, in areas which could result in or encourage the disclosure and/or use of any trade secrets or confidential information acquired by them, or imparted to them in the course of their employment with HARSHAW, regarding the machinery, or any part thereof, tools, appliances, apparatus, formulae, processes, devices, methods, procedures, ingredients, inventions, experiments, experimental and research work, designs, drawings, plans, books, customers and suppliers of HARSHAW.

(4) Restraining BICRON, its officers, agents and employees, HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK, and any of them, from persuading, enticing and inducing any other employee or former employee of HARSHAW, to disclose any trade secrets or confidential information acquired by him, or imparted to him in the course of his employment with HARSHAW, regarding the machinery, or any part thereof, tools, appliances, apparatus, formulae, processes, devices, methods, procedures, ingredients, inventions, experiments, experimental and research work, designs, drawings, plans, books, customers and suppliers of HARSHAW.

(5) Restraining BICRON, its officers, agents and employees, HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK, and any of them from altering, destroying, copying or in any other way disturbing any and all notes, work papers, charts, blueprints, drawings, sketches, books, correspondence, memoranda, photographs and any and all other writings, typings, printings or drafts, copies or reproductions thereof, in the possession, custody or control of BICRON, its officers, agents or employees, or any of the individual defendants, pertaining to the design, manufacture and sale of scintillation crystals, and further restraining defendants from removing any or all of the aforementioned items which are presently located on or about the premises of 12345 Kinsman Avenue, Newbury, Ohio, from said premises.

C. Order an accounting of the monetary damages caused by the individual defendants' breach of contract, trust and confidential relationship and the inducement of one or more of the following, HAMNER, MENEFEE and

SUSCHECK from HARSHAW, and award such damages to plaintiff and render a judgment thereon against BICRON, HAMNER, MENEFEE, NOVAK, RICHERT, SPURNEY and SUSCHECK, jointly and severally.

D. Render a judgment against BICRON in the amount by which it was or will be unjustly enriched due to the savings of research and development costs and lead time on items produced in competition with HARSHAW by the use of know-how, trade secrets and other confidential information gained from inducing the individual defendants to breach their respective agreements, positions of trust and confidential relationships.

E. Order an accounting for all other damages occasioned by plaintiff as a result of the conduct described herein.

F. Render a judgment for damages against the defendants, jointly and severally, and in favor of the plaintiff in the amount of $1,000,000.

G. Grant plaintiff such other and further relief as it may be entitled to in the premises, including recovery of reasonable attorneys' fees and its costs therein expended.

Respectfully submitted,

/s/ EDWARD P. TROXELL
JONES, DAY, COCKLEY & REAVIS
Attorney for Plaintiff

Of Counsel:
EDWARD P. TROXELL
BARRY L. SPRINGEL
ROBERT P. MOONEY, ESQ.
JOHN P. HAZZARD, ESQ.
KEWANEE OIL COMPANY

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION
(Title omitted in printing)

ORDER TO SHOW CAUSE AND TEMPORARY RESTRAINING ORDER

(Filed April 17, 1970)

Upon the verified Complaint, the Affidavit of Elmer C. Stewart and Dr. Carl F. Swinehart, and the Certificate of Edward P. Troxell, attached hereto, it is

ORDERED, that the defendants, Bicron Corporation, Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Thomas H. Richert, Richard W. Spurney and Harry Suscheck, show cause before this Court, on April 27, 1970, at 10 A.M., or as soon thereafter as counsel can be heard, why a preliminary injunction should not issue herein enjoining the defendants, their agents, servants, employees and attorneys and all persons in active concert and participation with them, pending the final hearing and determination of this action, from engaging in or causing any of the acts hereinafter specified; and

It appearing to the court that defendants are about to commit the acts hereinafter specified and they will do so unless restrained by order of this court, and that immediate and irreparable injury, loss or damage will result to plaintiff before notice can be given and the defendants or their attorneys can be heard in opposition to the granting of a temporary restraining order, in that plaintiff's trade secrets and confidential technical information will be disclosed and used by defendants and possibly irrevocably lost for all times, and under the balance of convenience

test, a temporary restraining order should be issued forthwith to avoid such disclosure and use and the ensuing damage, and plaintiff having given security approved by the court in the sum of $5000.00 for the payment of such costs and damages as may be incurred or suffered by any party who is found to have been wrongfully enjoined or restrained; it is further

ORDERED that:

(1) Defendants, Bicron Corporation, its officers, agents and employees, Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Thomas H. Richert, Richard W. Spurney and Harry Suscheck, be and they hereby are restrained from communicating or divulging either orally or in writing, or otherwise, to any person, firm, corporation, or other person whomsoever, any trade secrets or confidential information acquired by them, or imparted to them regarding the machinery, or any part thereof, tools, appliances, apparatus, formulae, processes, devices, methods, procedures, ingredients, inventions, experiments, experimental and research work, designs, drawings, plans, books, customers or suppliers of Harshaw Chemical Company.

(2) Defendants, Bicron Corporation, Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Thomas H. Richert, Richard W. Spurney and Harry Suscheck, their agents, servants, employees and attorneys and all persons in active concert and participation with them be and they hereby are restrained from using any, some or all of the trade secrets and confidential information of Harshaw Chemical Company.

(3) Defendants, Bicron Corporation, its officers, agents, servants, employees and attorneys and all

persons in active concert and participation with it be and are hereby restrained from employing Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Thomas H. Richert, Richard W. Spurney and Harry Suscheck, or any of them, or from employing any other employee or former employee of Harshaw Chemical Company, in areas which could result in or encourage the disclosure and/or use of any trade secrets or confidential information acquired by them, or imparted to them in the course of their employment with Harshaw Chemical Company, regarding the machinery, or any part thereof, tools, appliances, apparatus, formulae, processes, devices, methods, procedures, ingredients, inventions, experiments, experimental and research work, designs, drawings, plans, books, customers, or suppliers of Harshaw Chemical Company.

(4) Defendants, Bicron Corporation, Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Thomas H. Richert, Richard W. Spurney and Harry Suscheck, their agents, servants, employees, and attorneys and all persons in active concert and participation with them be and are hereby restrained from persuading, enticing and inducing any other employee or former employee of Harshaw Chemical Company, to disclose any trade secrets or confidential information acquired by him, or imparted to him in the course of his employment with Harshaw Chemical Company, regarding the machinery, or any part thereof, tools, appliances, apparatus, formulae, processes, devices, methods, procedures, ingredients, inventions, experiments, experimental and research work, designs, drawings, plans, books, customers or suppliers of Harshaw Chemical Company.

(5) Defendants, Bicron Corporation, Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Thomas H. Richert, Richard W. Spurney and Harry Suscheck, their agents, servants, employees, and attorneys and all persons in active concert and participation with them be and are hereby restrained from disturbing, destroying, copying or in any other way altering any and all notes, work papers, charts, blueprints, drawings, sketches, books, ledgers, correspondence, memoranda, photographs and all other writings, typings, printings or drafts, copies or reproductions thereof, in the possession, custody or control of Bicron Corporation, its officers, agents or employees, or any of the individual defendants, pertaining to the design, manufacture, canning and sale of scintillation crystals, and further restrained from removing any and all of the aforementioned items which are presently located on or about the premises of 12345 Kinsman Avenue, Newbury, Ohio, from said premises.

It is further ORDERED, that this order expire within 10 days after entry unless within such time the order for good cause shown is extended for a like period, or unless the defendants consent that it may be extended for a longer period; and it is further

ORDERED, that copies of this order together with proper summons issued by the clerk of this court, be immediately served by the United States Marshal upon the defendants.

Issued at 2:30 P.M., Apr. 17, 1970.

/s/ JAMES C. CONNELL
United States District Judge

IN THE, UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION
(Title omitted in printing)

ORDER EXTENDING TEMPORARY RESTRAINING ORDER

(Filed May 1, 1970)

This cause came on to be heard on April 27, 1970, pursuant to an Order to Show Cause and plaintiff's prayer for a preliminary injunction, and the Court having decided that further testimony will be required in this matter before ruling thereon; and it appearing to the Court from the verified complaint and the affidavits of Elmer Stewart and Carl Swinehart that defendants unless restrained by this Court will commit the acts referred to in said Restraining Order, and it further appearing that immediate and irreparable injury, loss and damage will result to plaintiff unless defendants are so restrained pending the determination of plaintiff's request for a preliminary injunction, and for good cause shown, it is

ORDERED that the Temporary Restraining Order issued in this cause on the 17th day of April, 1970, be and it hereby is extended until a final determination is made with respect to the issuance of a preliminary injunction, subject to further order of this Court.

Dated:
May 1, 1970

/s/ G. KALBFLEISCH
United States District Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION
(Title omitted in printing)

ORDER UNDER RULE 30(b) FEDERAL RULES OF CIVIL PROCEDURE

(Filed May 1, 1970)

IT IS HEREBY ORDERED that, if in the course of proceedings in this action prior to and during trial or hearing proceedings any party is required to disclose, list or state what the disclosing party contends are trade secrets, know-how or confidential information the following rules and conditions shall govern the parties, their attorneys, and agents

1. At the time of such disclosure, whether the disclosure is in the form of a list of trade secrets, know-how or confidential information or in the form of testimony, or is in the form of drawings, pictures, blue prints, sketches, prints, papers explanatory thereof or depositions, deposition transcripts, answers to interrogatories, answers to requests for admissions, or in any other form whatsoever, such matter so disclosed shall be treated as being confidential in every respect and shall not be disclosed, appropriated, used, or described in any manner by the receiving party, parties, their attorney or attorneys, court reporters, clerks or other officers of the court.

2. The papers, records, transcripts, exhibits or other evidence of such disclosure shall be packaged, sealed and marked "confidential" and shall be treated

in every respect as being confidential by the receiving party, parties, their attorney or attorneys, court reporters, clerks or other officers of the court.

3. Such disclosure shall not in any manner be treated or deemed as being a public disclosure.

4. No person or party shall, for the purpose of competition or otherwise, disclose or make use of any information obtained in this action if such information has been designated as confidential by the opposite party to this action.

5. The restrictions set forth in any of the preceding paragraphs shall not apply to information which at or prior to disclosure thereof in this action is or was in public knowledge, or which, after disclosure thereof, becomes public knowledge other than by act or omission of the non-designating party or its or his agents, consultants and attorneys.

6. This order is without prejudice to the right of any party to oppose production of information or evidence for lack of timeliness, relevance or for any other reason recognized by the rules of evidence governing these proceedings.

Dated: May 1, 1970.

/s/ G. KALBFELISCH
United States District Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION
(Title omitted in printing)

ANSWER OF DEFENDANT THOMAS H. RICHERT

(Filed June 22, 1970)

ANSWER TO FIRST CAUSE OF ACTION

FIRST DEFENSE

Defendant, Thomas H. Richert, admits the allegations contained in Paragraphs 1, 2, 3 and 4 of the Complaint; alleges that he is without knowledge or information sufficient to form a belief as to the truth of the allegations contained in Paragraphs 5, 6, 7, 9 and 10 of the Complaint; in answer to Paragraphs 8 and 11 through 19 of the First Cause of Action, the defendant admits that he was employed by Harshaw on February 7, 1962, and was engaged in the purification of raw materials used in the production of synthetic crystals, including scintillation crystals such as sodium iodide (Thallium activated) crystals, and that he did sign an employment application on or about February 1, 1962 which contained the Application Agreement; that he did resign from Harshaw effective August 30, 1968 to accept a teaching position for one year at John Carroll University; defendant further denies each and every other allegation contained in Paragraphs 8 and 11 through 19 inclusive of the Complaint.

ANSWER TO SECOND CAUSE OF ACTION

Defendant Thomas H. Richert denies each and every allegation contained in the Second Cause of Action of the Complaint as shown in Paragraphs 20 through 24, inclusive.

ANSWER TO THIRD CAUSE OF ACTION

Defendant Thomas H. Richert denies each and every allegation contained in the plaintiff's Third Cause of Action as set forth in Paragraphs 25 through 31 of the Complaint.

WHEREFORE, having fully answered the Complaint of plaintiff, this defendant prays that this Court enter judgment for defendant, Thomas H. Richert, on all three causes of action set forth in plaintiff's Complaint.

ZIDAR, MORGAN, OAKAR AND BURNS
By MATTHEW A. ZIDAR, *Partner*
A member of the firm

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION
(Title omitted in printing)

ANSWER

(Filed July 22, 1970)

Now come the defendants, Bicron Corporation, Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Richard W. Spurney and Harry Suscheck, and for their answer to the Complaint herein say:

ANSWER TO FIRST CAUSE OF ACTION

1. In answer to paragraph 1 of the First Cause of the Complaint, defendants admit the averments of said paragraph.

2. In answer to paragraph 2 of the First Cause of the Complaint, defendants admit the averments of said paragraph.

3. In answer to paragraph 3 of the First Cause of the Complaint, defendants admit the jurisdiction of the Court.

4. In answer to paragraph 4 of the First Cause of the Complaint, defendants admit the averments of said paragraph. Defendants further say that Harshaw's scintillation crystal design experience was paid for in part by the United States Atomic Energy Commission and stemmed from creative work done by Dr. Robert Hofstadter of Princeton University and others and was not unique to Harshaw.

5. In answer to paragraph 5 of the First Cause of the Complaint, defendants admit the averment of said paragraph, that Hamner was employed by Hamner Electronics Company on or about January 1, 1955 and did on or about March 11, 1964 execute an agreement with Hamner Electronics, and that Harshaw Chemical Company acquired control of Hamner Electronics. Defendants deny that said agreement inured to Harshaw because Hamner Electronics was dissolved and said agreement was terminated on May 20, 1969 to be effective July 31, 1969 by E. C. Stewart, President of Hamner Electronics Co., Inc. Defendants deny that Hamner was employed by plaintiff and that he became familiar with the various aspects, including production, sale, and use of synthetic crystals. Defendants admit that while Hamner had no experience with the production of such crystals prior to March 11, 1964, Hamner did have experience prior to March 11, 1964 with the use and sale of thallium activated sodium iodide crystals because Hamner Electronics had been a manufacture representative of Isotopes Inc.

6. In answer to paragraph 6 of the First Cause of the Complaint, defendants admit that Menefee, a physicist and mathematician was employed by Harshaw on or about February 3, 1964 and that as of February 1969 was a Product Group Manager. Defendants deny that he was actively involved in the research, development and production of scintillation crystals such as sodium iodide (thallium activated) crystals. Defendants deny that Menefee's capacity gave him access to anything not available to all employees of plaintiff except defendants admit that Menefee's capacity as Product Group Manager gave him access to certain Profit and Loss Statements, and some personnel files. Defendants admit that Menefee filled-out and signed an application for employment with Harshaw Chemical Company on February 3, 1964 but deny that Menefee contracted in any way with Plaintiff. Defendants deny for want of knowledge that this agreement was an earlier form which was uniformly required by Harshaw. Defendants admit that Menefee signed an "Employee Agreement to Invention, Patent and Confidential Information," on February 8, 1968 but deny that Menefee thereby contracted in any way with the plaintiff because there was no consideration for such agreement.

7. In answer to paragraph 7 of the First Cause of Action of the Complaint, defendants admit that Novak was employed by Harshaw except that defendants believe he was employed in May 1962. Defendants state that Novak left Harshaw in September 1969 and went to work for General Electric where he was employed until he became dissatisfied with a manual labor job he was assigned to during the strike. Defendants deny that Novak was a senior research technician. Defendants admit that Novak was involved in and familiar with some operations pertaining to the encapsulating of scintillation crystals but

deny he was involved in or familiar with operations pertaining to the forming and testing of scintillation crystals. Defendants deny that Novak was elevated to Development Engineer, wherein he was engaged on a highly secretive project involving scintillation crystals and gamma ray cameras. In further answer defendants state that in 1968 Novak was transferred from encapsulation to the nuclear medicine group. Defendants admit that Novak filled-out and signed an application for employment with Harshaw Chemical Company but deny that he in any way contracted with plaintiff. Defendants admit that Novak signed an "Employee Agreement Relating to Invention, Patents and Confidential Information" on February 8, 1969 but deny that Novak thereby contracted in any way with the Plaintiff. Defendants admit that Novak had no experience with scintillation crystals or their application before joining Harshaw.

8. In answer to paragraph 8 of the First Cause of action of the Complaint, defendants admit Richert was employed by Harshaw on February 7, 1962, and was engaged in the purification of raw materials used in the production of synthetic crystals including scintillation crystals such as sodium iodide (thallium activated) crystals. Defendants deny that he was engaged in the synthesis of raw materials. Richert left Harshaw in August 1968 and became a university chemistry instructor. Defendants deny Richert was engaged in the production of materials used in the packaging of such crystals except defendants admit Richert as a chemist ran a simple distillation of 1,2-propanediamine. Defendants admit that Richert filled out and signed an application for employment on or about February 1, 1962 with Harshaw Chemical Company but deny that he is in any way contractually bound to Plaintiff. Defendants admit that Richert had no experience with the

production of synthetic crystals before joining Harshaw. Defendants state that Richert had experience in the purification of materials before joining Harshaw using the same techniques that were used at Harshaw.

9. In answer to paragraph 9 of the First Cause of action of the Complaint defendants admit that Spurney, a laboratory technician, was employed by Harshaw on or about May 31, 1961 and engaged in research on optical, and scintillation crystal growth procedures. Defendants deny that he was involved with refinements of existing crystal growth procedures. Spurney left Harshaw in 1966 and was employed by General Electric Company until September 1969. Defendants admit that Spurney was engaged in the operation of developmental equipment for growing synthetic crystals including scintillation crystals except defendants deny he operated said equipment for the growth of sodium iodide (thallium activated) crystals, and deny that he operated plant scale equipment for growing synthetic crystals. In further answering defendants state that Spurney operated said equipment for growing a sodium iodide (thallium activated americuim doped) crystal with a diameter of 45 mm and that he has no experience with 17" diameter sodium iodide (thallium activated) crystal and left the employment of the plaintiff before said 17 inch crystal were produced by plaintiff. Defendants admit that Spurney filled-out and signed an employment application with the Harshaw Chemical Co. but deny that he is in any way contractually bound to plaintiff. Defendants admit that Spurney had no experience with scintillation crystals before joining Harshaw. In further answering defendants state that Spurney had experience in growing crystals before joining Harshaw.

10. In answer to paragraph 10 of the First Cause of action of the Complaint, defendants admit that Suscheck

was employed at Harshaw on or about May 1, 1963 and was engaged in the design and production of encapsulating of scintillation crystal detectors. Defendants admit that in this capacity he was knowledgeable with crystal surface preparation and materials of contract used in packaging such crystals. Defendants deny he was knowledgeable with crystal cutting. Defendants admit that he filled-out and signed an application for employment on or about April 6, 1963 with Harshaw Chemical Company but deny that he is in any way contractually bound to Plaintiff. Defendants admit that on February 8, 1968 Suscheck signed an "Employee Agreement Relation to Invention, Patent and Confidential Information" but deny that he thereby contracted in any way with the plaintiff. Defendants admit that Suscheck had no experience with scintillation crystals before joining Harshaw and in further answer state that Suscheck prior to joining Harshaw was trained and experienced in design work.

11. In answer to paragraph 11 of the First Cause of action of the Complaint defendants deny that Plaintiff has spent and is continuing to spend many thousands of dollars in the maintenance and operation of laboratories and manufacturing facilities in developing, improving and producing synthetic crystals including scintillation crystals. Defendants admit that Plaintiff has advertised scintillation crystals and has educated and familiarized customers in the use of synthetic crystals. Defendants deny that any unique developments have been made at Harshaw by its employees in the design and manufacture of scintillation crystals and state that Harshaw has no pending patent applications on any of its purported trade secrets. Defendants deny that any developments at Harshaw have not been revealed to the public or to Harshaw's competitors and deny that any information has been treated by Harshaw as trade secrets and confidential information.

Further answering, defendants state that all areas of the manufacture and production of scintillation crystals at Harshaw have been revealed to the public including persons technically skilled in the areas of scintillation crystals by reason of plant tours, photographs in catalogues, and other actions.

12. In answer to paragraph 12 of the First Cause of action of the Complaint, defendants deny each and every allegation. Defendants state that three other United States companies grow sodium iodide (thallium activated) crystals and that the various techniques in the areas of purported trade secrets claimed by Harshaw are disclosed in the literature and known in the trade and are not valid trade secrets of Harshaw.

13. In answer to paragraph 13 of the First Cause of action of the Complaint, defendants deny that Harshaw has in any way endeavored to maintain secrecy and confidentiality of any information in the area of synthetic crystals including scintillation crystals such as sodium iodide (thallium activated) crystals.

To the contrary, defendants state:

(a) Neither Hamner, Spurney, nor Richert signed the Trade Secret Agreement. Hamner did not sign the Application Agreement.

(b) Prior to August 15, 1969, employees were not given any instruction on maintaining secrecy.

(c) There was free access to the research and development departments.

(d) Defendants deny that Harshaw required visitors to sign in before being admitted to its facilities and defendants state that most visitors at the 97th Street facility

came in through a side door off the parking lot that looked like a front door and did not sign in.

(e) The activities observed by visitors were never limited. One Vern Mackay of Oak Ridge spent weeks in Harshaw's cutting and encapsulating department without limitation.

(f) The confidential marking was applied sporadically at the most. Many documents which disclose what Harshaw now claims to be trade secrets are not marked confidential.

(g) If section 1333.51 of the Ohio Revised Code ever was posted, which defendants deny, such was not done until after Kewanee acquired Harshaw.

(h) Defendants deny that any general debriefing involving trade secrets was given to persons leaving the employment of Harshaw. Of the named defendants, only Menefee recalls any such debriefing.

14. In answer to paragraph 14 of the First Cause of action of the Complaint, defendants deny that Harshaw is or has become a leader in the field of synthetic crystals and deny that any technical information has enabled them to become leaders in the field of synthetic crystals. Defendants deny that the work of Harshaw during the employment of Hamner, Menefee, Novak, Spurney and Suscheck resulted in substantial technological advances in the field of growing scintillation crystals. In further answering defendants state that no technological advances of any substance have been made in the field of growing scintillation crystals after 1960 by Harshaw or anyone else. Defendants deny that any technical information will assure the continuing commercial leadership of Harshaw in the field of growing scintillation crystals. Defendants deny that substantial research and development is now being

maintained by Harshaw but to the contrary state that Harshaw's department dealing with scintillation crystals has had severe budget cuts.

15. In answer to paragraph 15 of the First Cause of action of the Complaint, defendants deny that Hamner, Menefee, Novak, Suscheck and Spurney were key employees in the scintillation crystal operation of Harshaw. In further answering defendants state that Hamner's employment contract with Hamner Electronics was terminated by Hamner Electronics on May 20, 1969 to be effective July 31, 1969 and he has not been replaced. Menefee's position at Harshaw since he left their employment has been dissolved. Novak was merely a technician. As for Richert, when the person in the position above him retired a person from the outside was given his position. Spurney was merely a technician. In further answering defendants state that the skills employed by Suscheck in performance of his position were the same skills possessed by many other people.

Defendants deny that Plaintiff has any trade secrets or confidential information and that defendant's knowledge in the field of scintillation crystals was gained from Harshaw trade secrets.

16. In answer to paragraph 16 of the First Cause of action of the Complaint, defendants admit that Hamner's employment contract with Hamner Electronics was terminated and that said action was taken on May 20, 1969 to be effective July 31, 1969. Defendants deny that Hamner was in any way elevated to any position including Marketing Manager for Electronics. Defendants admit that Hamner submitted a formal resignation to E. C. Stewart except that said resignation was merely a formality based on the termination of his employment contracted and that he was given no title, responsibility or private office. De-

fendants deny that Hamner indicated he was going into the investment financing business in New York. In further answering defendants state that Hamner enrolled in the New York School of Finance, a correspondence school, on February 27, 1969. Defendants deny that Menefee stated he was resigning in order to start his own nuclear consultant business but admit that his termination was effective as of July 31, 1969. Menefee submitted his resignation June 9, 1969. In further answering defendants state that Menefee formed a nuclear consultant firm with another employee at Harshaw in the spring of 1968 and informed his supervisor E. C. Stewart of this outside interest. In further answering defendants state that Menefee resigned from Harshaw because he was discouraged with his impossible task which he had to perform at Harshaw. Defendants deny that Novak gave no reason for his resignation and admits he left the employment of Harshaw on September 12, 1969. In further answering defendants state that Novak was disappointed with his position at Harshaw in early 1968 and in 1969 informed Harshaw that if he was transferred back to the encapsulation department he would quit. When informed by his superior in the Nuclear Medicine Department approximately 2 weeks bfore September 12, 1969 that he was to be transferred back to the encapsulation department he quit. Defendants deny that Suscheck gave as his reason for resigning the opportunity to become part of a new business venture dealing with plastics but defendants admit that he left Harshaw on August 15, 1969. In further answering defendants state Suscheck had complained and discussed with E. C. Stewart the problems of his employment because of no authority over employees at Elyria which made it difficult to perform his job. Defendants admit that Richert tendered his resignation on August 15, 1968 in order to accept a one-year teaching position at

John Carroll University and his termination was effective August 30, 1968. Defendants admit that Spurney resigned in 1966 to accept a position with General Electric Company and his termination was effective on December 13, 1966.

17. Defendants deny that there was any planned concerted action by them to form a corporation prior to the time when those still employed by Harshaw had given notice to Harshaw that they would be leaving its employment. Defendants deny that there was any mass resignation and point out that Spurney, and Richert were not employed by Harshaw at all in 1969 that Novak left to work for General Electric without any intention of becoming associated with Bicron, that Hamner was in effect forced to leave by reason of the dissolution of Hamner Electronics and that Menefee left because he was dissatisfied.

Defendants deny that there was any assembly of material pertaining to the purported trade secrets of Harshaw.

Defendants deny that there are any trade secrets involved in the crucible for growing crystals.

Defendants admit that they contracted Englehard Industries to supply them with a 17 inch platinum crucible because it is the only supplier of such crucibles.

Defendants deny that Harshaw is the only company capable of growing 17 inch sodium iodide (thallium activated) crystals and, to the contrary, say that Quartz and Silice of Paris, France grows such crystals and through its United States agents has them available for purchase.

Defendants deny that Richert is employed or has ever been an employee of Bicron Corporation. Defendants admit that Hamner is president and Menefee is Vice Presi-

dent of Bicron. Defendants admit that Hamner, Menefee, Spurney and Suscheck are all members of the Board of Directors of Bicron Corporation.

18. In answer to paragraph 18 of the First Cause of action of the Complaint, defendants deny each and every allegation of paragraph 18.

19. In answer to paragraph 19 of the First Cause of action of the Complaint, defendants deny each and every allegation of paragraph 19.

Further answering, defendants deny all and singularly each and every averment contained in the First Cause of action of the Complaint not hereinbefore expressly and specifically admitted to be true.

ANSWER TO SECOND CAUSE OF ACTION

20. In answer to paragraph 20 of the Second Cause of action of the Complaint, defendants deny each and every averment contained in paragraph 20 and in further answering deny each and every averment of paragraph 1-19 inclusive not hereinbefore expressly and specifically admitted to be true.

21. In answer to paragraph 21 of the Second Cause of action of the Complaint, defendants deny each and every allegation of paragraph 21.

22. In answer to paragraph 22 of the Second Cause of action of the Complaint, defendants deny each and every allegation of paragraph 22. Defendants state that their status as employees was no different than the status of all other employees and that no special rights or privileges with respect to purported trade secrets were conferred upon them. To the contrary, defendants say all employees of Harshaw had free access to its facilities.

23. In answer to paragraph 23 of the Second Cause of action of the Complaint, defendants deny each and every allegation of paragraph 23.

Defendants deny that plaintiff has any reason to believe that any defendant would breach his obligations, if any, to Harshaw. Defendants say that Harshaw brought this action without cause or justification for the purpose of bankrupting defendant Bicron eliminating competition, and preserving a dominant position in the field of growing sodium iodide (thallium activated) crystals.

24. In answer to paragraph 24 of the Second Cause of action of the Complaint, defendants deny each and every allegation in paragraph 24.

Further answering, defendants deny all and singularly each and every averment contained in the Second Cause of action of the Complaint not whereinbefore specifically and expressly admitted to be true.

ANSWER TO THIRD CAUSE OF ACTION

25. In answer to paragraph 25 of the Third Cause of action of the Complaint, defendants deny each and every allegation in paragraph 25 and deny each and every allegation contained in paragraphs 1-24 inclusive of the Complaint which has not been specifically and expressly admitted to be true.

26. In answer to Paragraph 26 of the Third Cause of action of the Complaint, defendants deny each and every allegation in paragraph 26.

27. In answer to paragraph 27 of the Third Cause of action of the Complaint, defendants admit that Bicron plans to grow sodium iodide (thallium activated) crystals,

as do three other United States companies and that Bicron plans to grow 17 inch crystals as does Quartz and Silice.

Defendants deny that Harshaw has any proprietary rights in this area other than perhaps patent rights about which defendants have no present knowledge.

Defendants deny all allegations of paragraph 27 not above admitted.

28. In answer to paragraph 28 of the Third Cause of action of the Complaint, defendants deny each and every allegation in paragraph 28 except that Bicron intends to produce and sell scintillation crystals including the growth of a 17" diameter sodium iodide (thallium activated) crystals. Defendants state, on information and belief, that Quartz and Silice grows 17 inch crystals without using any purported Harshaw trade secrets and that Harshaw is not unique in growing 17 inch crystals.

29. In answer to paragraph 29 of the Third Cause of action of the Complaint, defendants deny each and every allegation in paragraph 29.

30. In answer to paragraph 30 of the Third Cause of action of the Complaint, defendants deny each and every allegation in paragraph 30.

31. In answer to paragraph 31 of the Third Cause of action of the Complaint, defendants deny each and every allegation in paragraph 31.

Further answering defendants deny all and singularly each and every averment contained in the Third Cause of the Complaint not hereinbefore specifically and expressly admitted to be true.

WHEREFORE, defendants pray that this Court:

(a) Dismiss the Complaint of plaintiff.

(b) Award costs and attorney fees to defendants.

(c) Enjoin plaintiff from in any way publicizing this action or interfering in the efforts of defendant Bicron to sell its crystals or otherwise unfairly compete with Bicron.

Respectfully submitted,

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BICRON CORPORATION
LLOYD H. HAMNER
JULIOUS M. MENEFEE
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and
HARRY SUSCHECK

FINDINGS OF FACT AND CONCLUSIONS OF LAW (AS EXCISED)

[Certain material has been deleted consistent with the Order Supplemental to Memorandum of Decision.]

(Filed November 24, 1970)

Civil Action No. C 70-363

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

KEWANEE OIL COMPANY,
Plaintiff,

v.

BICRON CORPORATION, *et al.*,
Defendants.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

KALBFLEISCH, SR. J.

This action was before the Court upon plaintiff's application for a permanent injunction and an order to show cause entered April 17, 1970, and the matter having been tried upon the facts by the Court without a jury as to the equitable relief sought, the Court hereby finds the facts and states separately as conclusions of law thereon as follows:

FINDINGS OF FACT

1. Plaintiff, Kewanee Oil Company (hereinafter referred to as "Kewanee"), is a corporation incorporated under the laws of the State of Delaware and has its principal place of business in the State of Pennsylvania. The Harshaw Chemical Company (hereinafter referred to as "Harshaw") is an unincorporated division of Kewanee (Tr. 26-27).

2. Defendant Bicron Corporation (hereinafter referred to as "Bicron") is a corporation incorporated under the laws of the State of New Jersey and has its principal place of business in the State of Ohio (PX-32; Tr. 830). The individual defendants, Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Thomas H. Richert, Richard W. Spurney and Harry Suscheck (hereinafter referred to as "Hamner", "Menefee", "Novak", "Richert", "Spurney" and "Suscheck"), are each citizens and residents of the State of Ohio (Tr. 27-28).

3. The amount in controversy exceeds $10,000, exclusive of interest and costs.

4. This is an action in which plaintiff seeks an injunction and damages against the individual defendants, its former employees, for breach of contract, trust and confidential relationship, and against the corporate defendant for unfair competition.

5. Part of Harshaw's activities involve the growth of synthetic crystals and its experience in this area dates back to about 1937 (Tr. 535). The subject matter of this action is the production of synthetic crystals and particularly sodium iodide thallium activated scintillation crystals.

A scintillation crystal is referred to as phosphor. When ionizing radiation strikes a phosphor, such as a so-

dium iodide thallium activated crystal, a minute particle of light is generated. This particle of light is capable of detection by a photomultiplier tube, which converts the light into a usable electronic pulse (Tr. 30). The coupling of an encapsulated scintillation crystal to a photomultiplier tube is commonly referred to as a radiation detector assembly, and such assemblies are employed for example in geophysical surveys for uranium and oil, the clinical measurement of radioisotopes and outer space exploration (Tr. 204-05).

6. In 1949 Harshaw began conducting research on scintillation crystals, such as sodium iodide thallium activated crystals, and shortly thereafter commenced manufacturing and encapsulating such crystals (Tr. 29-30). Harshaw was the forerunner in the growth of scintillation crystals, there being no other companies producing such crystals at this point in time (Tr. 30-31).

Sodium iodide thallium activated crystals were invented by Robert Hofstadter of Princeton University and he obtained a patent on his invention. Harshaw took a license under the Hofstadter patent and paid royalties. (DX E; Tr. 124, 300 Stewart). The process used to grow the 17" diameter crystal was the same process used by Harshaw to grow its 12" and 14" diameter crystals before 1966 (Tr. 683 Swinehart).

The United States Atomic Energy Commission contracted with Harshaw on June 26, 1950, to work on scintillation crystals and work continued under that contract through December 31, 1953 (DX Z; Tr. 124 Stewart). The results of the work for the Atomic Energy Commission were published in 1952 in Atomic Energy Commission report NYO-1577 (DX F; Tr. 303 Stewart). The Atomic Energy Commission paid for the work done by Harshaw on

scintillation crystals in accordance with the June 26, 1950, contract (Tr. 303 Stewart). Harshaw spent in excess of one million dollars on research (Tr. 204).

United States companies other than Harshaw which grow sodium iodide thallium activated crystals are Isotopes Inc., Packard Instrument, and Isomet Corporation (Tr. 318 Stewart; DX U-1). In addition, there are one or two companies in Japan which grow such crystals, Hilger & Watts in Great Britain, and Quartz & Silice in France (Tr. 319 Stewart; DX J). To date, no company other than Harshaw has grown or marketed a 17″ diameter sodium iodide thallium activated crystal. The evidence clearly establishes that Harshaw's competitors have grown and marketed crystals as large as 13″ in diameter, and that Quartz & Silice at least have offered to sell a 16″ diameter crystal (DX V and J).

7. The following general steps are involved in the growth of scintillation crystals by Harshaw: Raw materials, such as sodium iodide, are chemically processed until a growth stock of very high purity is achieved. This material is then "doped" with an impurity, such as thallium, in order to permit the grown crystal to scintillate. This mixture is then placed in a platinum crucible and the crucible lowered into a growth furnace. Sufficient heat is applied to completely melt the mixture into a liquid form. The crucible is then very slowly lowered into another chamber of the growth furnace of lesser temperature, thereby causing the molten mass to solidify. When the crucible reaches its lowermost point the mass has completely solidified, resulting in a fully grown crystal ingot. The crucible containing the ingot is removed from the growth furnace and placed in a melt-out furnace, which is then heated above the melting point of the crys-

tal. The crucible is then removed from the ingot. This procedure is similar to removing ice cubes from the tray in which they were formed. The ingot is then placed in an annealing furnace and permitted to slowly cool over a period of time to room temperature. The growth process is now complete and the crystal ingot is ready for cutting, preparation and encapsulation (Tr. 686-98).

Plaintiff produced a list of Harshaw's trade secrets that were involved in the production of scintillation crystals such as sodium iodide thallium activated and related activated crystals. The list was identified as plaintiff's exhibit 56 and was admitted into evidence. Harshaw agrees that it is not relying upon any trade secrets that are not on that list (Tr. 781).

8. The Bicron purification procedure was prepared by Richert and submitted to Bicron in written form marked "DX Richert A."

9. This write-up in turn had five alternative procedures designated Procedure A, Procedure B, Procedure C, Procedure D and Procedure E.

10. Procedure A is the only procedure that has been used by Bicron in the purification of sodium iodide (Tr. 951 Spurney). Nothing in Procedure A was charged as a violation of Harshaw's trade secrets (PX 49, 50 and 51).

11. Richert testified that the Harshaw purification techniques were standard chemical techniques that he would teach an undergraduate (Tr. 603). He was of the opinion that there was nothing so unique as to be of confidential character (Tr. 604).

12. The Titanium Products Corporation in its catalogue, "Special Metal Products of Titanium, Tantalum Zerconium to Serve the Chemical Process Industries,"

recommends only titanium for use with hydroiodic acid and Richert testified that a logical material to use in working sodium iodide and hydroiodic acid was titanium (Tr. 1327 Richert).

13. Harshaw's witnesses testified that Harshaw had "trade secrets" in purification which went beyond the Hay and Johnson patents (Tr. 246, 500 Stewart).

14. Stewart admitted that a person could follow the purification procedures of the Hay and Johnson patents and have a commercial product (Tr. 405 Stewart).

15. Bicron purchases its thallium iodide from the outside, does not purify it, so that trade secret "(2) Procedure for preparing high purity thallium iodide" may apply, if at all, only prospectively (Tr. 786 Swinehart).

16. Spurney prepared a description of the Bicron crystal growth process which was DX Q (Tr. 951 Spurney).

17. While Spurney had ideas for the Bicron crystal growth furnace and made some sketches, and Suscheck made drawings for the Bicron growth furnace, the growth furnace was designed by an independent engineering firm, Flocke and Associates (Tr. 955 Spurney).

18. The Bicron heating elements were designed by another independent contractor, Ben Brasch of Industrial Systems Company (Tr. 965 Spurney).

19. Swinehart admitted that the Bicron growth furnace did not look like the Harshaw furnaces (Tr. 674, 676 Swinehart).

20. The Bicron meltout furnace and annealing furnace were considered by Spurney, Suscheck, Menefee and Hamner and drawn by Suscheck (Tr. 955, 956 Spurney).

21. Spurney compared the Bicron furnaces and growth procedures to the process list, paragraph 3 of PX 56, and found that they were shown in reference publications (Tr. 958, 971 Spurney, DX R-1, R-2, R-3, R-4, R-6, R-7, R-1A).

22. * * *

23. The use of separate meltout and annealing furnaces was described in an article in Industrial and Engineering Chemistry by Harry Kremers of Harshaw (Tr. 971, 996 Spurney, DX R-3, page 1479).

24. Spurney testified he did not recall seeing the * * * at Elyria and that he designed the Bicron furnaces independently of Harshaw (Tr. 986, 993).

25. Bicron paid approximately $10,000 more for its 17-inch platinum crucible than did Harshaw because it was .012 inches thick as opposed to the Harshaw crucible which was .008 inches thick (Tr. 1125 Menefee).

26. A drawing of Harshaw's 17-inch platinum crucible showing a * * * cone height, not marked "Confidential," was found in the files of Englehard Industries in connection with a purchase order from Harshaw (Tr. 62 Schroeter, PX 20).

27. PX 20-A shows that Harshaw uses a cone height of * * * on its 10" diameter crucible and a cone height on its 12" diameter crucible (Tr. 1135 Suscheck; PX 20-A).

28. At the time of the trial of this action Bicron had not cut, prepared or encapsulated any crystals (Tr. 1089-90 Menefee).

29. In the normal process of selling crystals, the design of the device is worked out between the supplier and

the customer so as to satisfy the particular and specific use of each customer (Tr. 1089 Menefee).

30. Menefee identified a list of materials for cans or containers, optical windows, magnetic shields, reflectors, optical couplers, hermetic seals, light pipes, abrasives, and polishing solvents which Bicron might use (Tr. 1090 Menefee; DX T).

31. The speed of the saw blade of the Bicron band saw has not been modified in any way (Tr. 1097 Menefee; see PX 56, ¶ 4 (a) (i), page 4).

32. The Isotopes catalogue and the Harshaw optical crystals catalogue show use of band saws to cut crystals (Tr. 1098-99 Menefee; DX U-1, page 5; PX 41-A, page 52).

33. The Managan article gives the speeds for machining and cutting crystals (Tr. 1099; PX 43, pages 60 and 61).

34. The use of * * * interface materials is documented in DX U-3 and U-4 (Tr. 1101 Menefee; see PX 56, 4 (c) (i)).

35. The * * * of encapsulated crystals is shown in the Harshaw condensed catalogue DX U-2, pages 9, 10 and 17 (Tr. 1103 Menefee), and can be discovered by taking apart any such encapsulated crystal (Tr. 1244 Menefee; see PX 56, 4 (d)).

36. It is well known in the art that sodium iodide thallium activated crystals are hygroscopic and are to be encapsulated under conditions as dry as possible (Tr. 206 Stewart).

37. Bicron has a dry box which they hope will give a relative humidity with a dew point of * * * (Tr. 1090 Menefee; see PX 56, 4 (h)).

38. Harshaw's optical catalogue indicates that in handling sodium iodide the dew point in the dry box should be * * * (Tr. 1107 Menefee; PX 41-A, page 13).

39. In order to sustain its burden of proof with respect to the existence of trade secrets, plaintiff put in evidence a document (PX 56) which set forth with particularity the processes, procedures and manufacturing techniques which it claims comprise the trade secrets in suit (Tr. 765). Not as a finding of fact but only for purposes of further discussion, Exhibit 56 is reproduced below in its entirety:

"Among Harshaw's trade secrets are the following:

(1) Procedure for preparing high purity sodium iodide for crystal growth stock including:

(a) * * *

(b) * * *

(c) * * *

(d) * * *

(e) * * *

(f) * * *

(g) Special equipment used in purification

(i) * * *

(ii) * * *

(h) * * *

(i) * * *

(2) Procedure for preparing high purity thallium iodide

(a) * * *

(b) * * *

(3) Growing of sodium iodide (thallium) crystals

(a) * * *

(b) Furnace programming generally and including:

(i) * * *

(ii) * * *

(iii) * * *

(iv) * * *

(c) Particular design and materials of construction of Plaintiff's growing furnaces, melt-out furnaces, annealing furnaces, crucibles and accessory equipment. Among the trade secrets and confidential information in Plaintiff's growing furnaces are * * *

(d) * * *

(e) * * *

(f) Annealing procedure * * *

(4) Preparation and encapsulating of crystals

(a) Cutting of crystals

(i) * * *

(ii) * * *

(b) * * *

(c) Interface materials

(i) * * *

(ii) * * *

(iii) * * *

(d) * * *

(e) * * *

(f) * * *

(g) * * *

(h) * * *

(i) * * *

The Court hereby emphasizes that the inclusion herein of PX 56 does not in any wise represent a finding of fact in the sense that the Court has determined that the substance thereof has been proved to be trade secrets, or that the defendants or any of them acquired knowledge thereof in confidence, and under an express or implied obligation not to use or disclose them.[1]

40. Commencing in 1949 with the growth of a small (less than 2 inches in diameter) sodium iodide thallium activated crystal, Harshaw, by means of continuing research and development, was able in 1966 to grow a 17 inch sodium iodide thallium activated crystal (Tr. 202). In order to accomplish this task Harshaw spent in excess of one million dollars on research (Tr. 204) and employed as consultants such notable experts as Dr. Stockbarger, a pioneer in the field of crystal growth and Dr. Hofstadter, a Nobel Prize winner in Physics (Tr. 825, 827).

Harshaw's claimed trade secrets reside in the following areas: (1) the purification of raw materials; (2) the growth of the crystal; and (3) the preparation and encapsulating of the crystal (PX 56). These processes, pro-

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1. In order not to disclose to the general public the trade secrets concerning which testimony was given in the course of the trial of this case, the courtroom was closed to all except court officials, the parties and their counsel, and witnesses.

On May 1, 1970, the Court adopted an order under Rule 30(b) Fed. R. Civ. P. providing that "if in the course of proceedings in this action prior to and during trial or hearing proceedings any party is required to disclose, list or state what the disclosing party contends are trade secrets, know-how or confidential information * * * [certain] rules and conditions shall govern the parties, their attorneys, and agents." Consistent with this action, this memorandum Findings of Fact and Conclusions of Law will remain impounded until further order of the Court, except that the Clerk may, on inquiry, disclose to persons other than the parties and their counsel those findings of fact and conclusions of law which do not contain any description or naming of equipment, materials or procedures mentioned in this memorandum concerning the production of sodium iodide thallium activated scintillation crystals. See "Order Supplemental to Memorandum," infra.

cedures and manufacturing techniques become more critical as the size of the crystal increases (Tr. 213-15, 639).

The defendants protest that none of the claims included in Harshaw's PX 56 are trade secrets except the item identified as 4 (c) (ii). Defendants admit that item is a trade secret, but insist they have not used and do not intend to use it in their production of crystals.

Between 1955 and 1960 there were a number of places where people were doing work and writing papers on sodium iodide crystals (Tr. 1353 Managan; Tr. 1259 Menefee; PX 42; DX U-3; DX U-5; DX F).

The Argonne National Laboratory and the Oak Ridge National Laboratory did work in fabricating and encapsulating sodium iodide thallium activated crystals (Tr. 1350 Managan).

Oak Ridge had a larger group than the Argonne National Laboratory working on scintillation crystals (Tr. 1352 Managan).

41. The items designated (1) (a) through (1) (f) inclusive of PX 56 were contained in Harshaw purification procedures (PX 46-48). Harshaw maintained a policy of distributing confidential subject matter on scintillation crystals to a limited number of its employees.

Richert was one of the employees to whom some of the documents marked "Confidential" were distributed. During his employment he maintained a file for such documents and that file remained with Harshaw when his employment was terminated (Tr. 563, 581-82, 604). He understood that he was not to disclose to anyone any procedures which he received which were marked "Confidential" (Tr. 569).

42. While employed by Harshaw, Richert was involved in part with the purification of sodium iodide (Tr. 559). In carrying out his tasks he became familiar with the various equipment used in the purification processes, thus obtaining some knowledge of the equipment set forth in items (1) (g) and (1) (h) of PX 56. The item designated (1) (i) of PX 56 was contained in a Harshaw procedure marked "Confidential" PX 64). Richert was on the distribution list for this procedure but does not recall receiving a copy of it (Tr. 1318).

43. As regards items (2) (a) and (b) of PX 56, Richert testified that he knew thallium iodide had to be added in order to create a scintillation effect and that he believed Bicron would add thallium iodide to produce the scintillation effect of sodium iodide, although he did not recommend it nor was he told by Bicron that they proposed to follow that procedure. He further testified that thallium iodide is available from a number of chemical companies as a commercial material. He testified that he performed some experiments on thallium iodide while working for Harshaw, but that he was not told nor does he know whether Bicron planned to follow the procedures contained in items (2) (a) and (b) of PX 56 (Tr. 1319-22). Richert further testified that he performed the functions of (4) (c) (i) while working for Harshaw, but that he neither advised Bicron nor was he asked by them concerning that item of PX 56 (Tr. 1322-23). Richert was questioned on direct and cross examination concerning most if not all of the items contained in PX 56, particularly as to whether any knowledge he acquired while working at Harshaw was included in the procedures he devised for Bicron (DX A Richert), and whether the procedures outlined in PX 56 were unique and/or trade secrets. Richert's evaluation of PX 56 is best illustrated by the following questions and answers appearing on pages 603-04 of the transcript:

"The Court: Did you learn anything when you began your work with Harshaw in the purification of sodium iodide which you found to be unique, to be something other than or different from that which is taught generally in the purification field?

"The Witness [Richert]: No, sir, I did not.

"The Court: Do you consider that Harshaw has any so-called trade secrets insofar as its purification of sodium iodide is concerned?

"The Witness [Richert]: I think the techniques that are used are standard chemical techniques that I would teach an undergraduate. The operations—the physical operations are—filtration, of recrystallization, of precipitation, are standard chemical techniques that I would teach.

"The Court: Did you, during the course of your work with Harshaw in the purification of sodium iodide, at any time feel that you were being privileged to view or obtain information that was so unique that it was of a confidential character?

"The Witness [Richert]: (A short pause).

"The Court: Do you want that read back?

"The Witness [Richert]: Please.

[question read by Reporter]

"The Witness [Richert]: No, sir."

44. Richert's superior, Dr. Carl Swinehart, upon whom Harshaw most heavily relies as regards its claimed trade secrets, testified that Richert "was very much involved in the development of the purification procedures; they were primarily developed by Mr. Johnson and the other men in the plant working under him." (Tr. 801). Richert's specific activities and association with the growth of crystals at Harshaw are described in greater detail by the witness Swinehart, particularly on pages 808-12 and 815-16 of the transcript.

Swinehart testified that it is necessary to employ secrets which go beyond the Hay and Johnson patents (PX 38 and PX 39) to produce sodium iodide thallium activated crystals Tr. 727-28). During Swinehart's testimony he evaluated the testimony of Richert and Richert's DX A as they relate to PX 46, 47, 48 and 56 (Tr. 725-65). To illustrate that evaluation he prepared PX 49, 50, 51, 52, 53 and 54. One of Swinehart's conclusions was as follows:

> "Whereas, again, in the Richert procedure, he comes down to * * *, and certainly implies that he is, at this point, ready to grow crystals from it; and it is our opinion that it's not ready to grow crystals at that point." (Tr. 753).[1]

45. Swinehart also implied that without knowledge acquired while working for Harshaw Richert could not have devised DX A Richert.[2]

Whereas, Richert testified as to each element of each process set forth in PX 56 (Tr. 1278-99), closing his testimony on direct examination as follows:

> "Q. I will ask you again, Mr. Richert, whether or not, in the preparation of the procedure which is shown in Defendant Richert Exhibit A, you used in any way any confidential information or material which you

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1. Upon direct examination of Richert (Tr. 1283-84) the following question and answer appear:

> "Q. Do you know at this moment, whether the procedure that you have devised in Exhibit A will purify sodium iodide to the point that it will grow an effective crystal?
> "A. No."

2. "Q. Is it possible to prepare Exhibit A without a foundation of experimentation?
"A. Yes, I believe so.
"Q. You can do it solely by going to the library?
"A. The information is in the literature." (Tr. 621).

may have acquired while you were in the employ of The Harshaw Chemical Company?
"A. I don't believe that I have." (Tr. 1299).

Again, on cross examination, at pages 1323-24 of the transcript, plaintiff's counsel asked Richert:

"Q. Now, you also testified, I believe that in preparing Exhibit A, you did not use any confidential information of Harshaw?
"A. That's correct."

46. The defendants dispute the validity of each element and of each procedure and sub-process of plaintiff's claimed trade secrets as contained in PX 56. Defendants seek to defend their position by contending that Bicron and the defendants had not, do not, and will not follow or use the following processes and elements set forth in PX 56:

Under procedure (1): (a); (b); (c); and (i).

Under procedure (2): (a) and (b).

Under procedure (3): The first two sentences of (c); also, the following sub-process in (c): * * * also, the last sentence of (3) (c); the second sentence of (3) (d); and (3) (f).

Under procedure (4): (a) (i) and (ii); (b); (c) (ii) and (iii); (e); (g); and (i).

The defendants' second contention with regard to PX 56 is that the following elements, procedures and sub-processes thereof are in the teaching of prior art and are public knowledge.

Under procedure (1): (d); (e); (f); (g) (i) and (ii); and (h).

Under procedure (3): (a); (b) (i) (ii) (iii) and (iv); the third and fourth sentences of (c); the first and third sentences of (d); and (e).

Under procedure (4): (c) (i); (d); (f); and (h).

The Court finds that the preponderance of the evidence supports the contentions of the defendants in this finding No. 46.

47. Lloyd H. Hamner is one of the defendants in this action. Hamner is President and Treasurer of defendant Bicron Corporation and has been since August 18, 1969 (PX 58). In 1954 Hamner formed Hamner Electronics Company, a nuclear research instrumentation company which purchased sodium iodide thallium activated crystals which were assembled in nuclear detectors. In 1963 Hamner Electronic Company, Inc., became a manufacturer representative for Isotopes, Inc., marketing sodium iodide thallium activated crystals throughout the United States. On March 11, 1964, the controlling interest in Hamner Electronics Company, Inc., was sold to Harshaw Chemical Company and Hamner continued as President and Chairman of the Board of said Company (Tr. 843-45).

48. In the course of his employment, Hamner executed on or about March 11, 1964, an Agreement which provided in part:

> "3. * * * The Employee agrees to carefully guard and keep all secret or confidential information which shall or may concern the Company, its inventions, discoveries, improvements, techniques, methods of manufacture, finances, or other trade secrets, and he shall at no time, either during or after his employ by the Company, disclose, directly or indirectly, any such information without the prior written consent of the Company.
>
> * * *

"9. This Agreement shall inure to the benefit of and shall be binding upon the Company, its successors and assigns, including any corporation or entity succeeding to the business of the Company as a result of any consolidation, merger, sale or lease of assets, or reorganization."

49. Hamner's experience primarily involved the various applications to which encapsulated scintillation crystals may be put and aspects relative to the sale of such products, including customer lists (Tr. 237, 240, 843-44).

In the latter part of 1966 Hamner resigned as President and took the position of Marketing Consultant with Hamner Electronics Company, Inc. In August of 1968 the office of Hamner Electronics was moved to the Harshaw Chemical Company's East 97th Street facility in Cleveland, Ohio, at which time Hamner was required to move to the Cleveland area. In May of 1969 the offices were moved to Harshaw's new Solon facility (Tr. 846-47).

50. By letter dated June 3, 1969 (DX N), E. C. Stewart, then President of Hamner Electronics Company, Inc., notified Hamner that Hamner Electronics Company, Inc., was to be dissolved and that Hamner's agreement with the Company was to terminate effective July 31, 1969, in accord with paragraph 4 of PX 10. On July 28, 1969, Hamner, who had been moved out of his own office and into an office he shared with Menefee, notified Stewart that "in light of your termination letter dated June 3, 1969, I will be leaving your employ as of August 15, 1969." (DX N).

51. Julious M. Menefee is a defendant in this action. Menefee is Vice President and Secretary of defendant Bicron Corporation. Menefee received a B.S. in Physics and a Master's Degree in Physics from Sam Houston State

College. His Master's there was in Nuclear Physics dealing with sodium iodide scintillation spectrometer (Tr. 1062-63; PX 34-35).

52. In consideration of his employment, Menefee executed on February 3, 1964, an employment application that included an earlier form of patent and confidential information agreement (hereinafter referred to as "APPLICATION AGREEMENT") (PX 11). The APPLICATION AGREEMENT provided in part:

> "I will not at any time disclose any confidential information obtained by me during or as a result of my employment by the Company."

On February 8, 1968, in consideration of his continued employment, Menefee and Kewanee entered into an "Employee Agreement Relating to Inventions, Patents and Confidential Information" (hereinafter referred to as the "TRADE SECRET AGREEMENT") (PX 12). Paragraph 4 of the TRADE SECRET AGREEMENT provided as follows:

> "(4) Unless authorized in writing, or instructed, by the Company, I will not during or after my employment disclose to others, or use, any of the Company's inventions or discoveries or its secret or confidential information, knowledge or data which I may obtain during the course of my employment relating to its business, customers, business methods, formulae, processes, machines, manufactures, or compositions, whether or not developed by me. The 'Company's inventions and discoveries, and its secret and confidential information, knowledge and data' as used in this paragraph shall be deemed to include all inventions and discoveries and secret and confidential information, knowledge and data in its possession whether owned by it or acquired from others under obligation to maintain confidential."

In February 1969, Menefee was promoted to Group Manager-Nuclear Detectors And Systems (PX 36; Tr. 221). In this capacity he was responsible for the development of new detector assemblies employing scintillation crystals, which gave him access to and experience in all phases of crystal production, including synthesis and purification of raw materials, crystal growth, and preparation and encapsulation of finished crystals (Tr. 221-22, 648-49). However, Stewart, one of Harshaw's principal witnesses, testified that none of the persons under Menefee's supervision were directly involved in the growth research and development of sodium iodide thallium activated crystals (Tr. 224).

53. In the spring of 1968 Menefee became dissatisfied with his work at Harshaw and formed a consulting business, Nuclear Consultants, with Karl Stout. Menefee discussed this outside venture with Stewart. On June 9, 1969, he gave notice to Stewart that he was leaving Harshaw and left on July 31, 1969 (Tr. 1068).

54. William P. Novak is one of the defendants in this action. Novak is an employee of Bicron Corporation. He was employed by Bicron Corporation on January 1, 1970, and owns no stock in that corporation (Tr. 908). Novak was employed by Harshaw in April 1962. In consideration of his employment, Novak, on April 18, 1962, executed the APPLICATION AGREEMENT (PX 28). On February 8, 1968, in consideration of his continued employment, Novak and Kewanee concurrently executed the TRADE SECRET AGREEMENT (PX 29). Novak was a technician in the Crystal Canning Department and for six years was engaged in part in the canning and encapsulation of scintillation crystals, such as sodium iodide thallium activated (Tr. 228, 910-11). He was a lead man in the Department for "six months or maybe a year," and in this capacity was responsible for quality control and the

teaching of canning and encapsulation techniques to other employees whom he supervised (Tr. 910-11).

55. Novak was dissatisfied with his future at Harshaw and in the Fall of 1968 started investigating other opportunities. On February 14, 1969, he gave a $1,500 binder's fee for an Open Pantry franchise (Tr. 905-06; DX P). On September 12, 1969, he left Harshaw after being told he was to return to the Encapsulation Department (Tr. 248, 905). Novak was employed as an electronics technician from September 1969 to December 20, 1969, at the General Electric Company (Tr. 907-08). He left General Electric because he was assigned to a twelve-hour manual labor job during the strike (Tr. 908). Novak studied electronics at Griswald Institute and received a certificate in December 1969. He wired the furnaces for the defendant Bicron "on the basis of what [he] learned at Griswold Institute." (Tr. 919).

56. Thomas H. Richert is a defendant in this action. Richert is an Instructor of Chemistry at Kent State University, Ashtabula branch. He is not an employee, officer or shareholder of Bicron Corporation (Tr. 543, 558, 600, 831). Richert was awarded a B.S. in Chemistry in 1957 and a Master of Science in Chemistry in 1959 from John Carroll University. While studying for his Master's he accepted a graduate teaching assistantship in the Department of Chemistry at John Carroll. From June 1959 to June 1961 he was a graduate assistant at Case Institute of Technology studying analytical chemistry. "The prime emphasis of the group at Case was purification by precipitation. This is the same type of technique that is used in purifying a number of materials at Harshaw, including sodium iodide." (Tr. 544-46, 599).

57. Richert was employed by Harshaw in February 1962. In consideration of his employment, Richert, on Feb-

ruary 1, 1962, executed the APPLICATION AGREEMENT (PX 30). Richert worked in the Purification Department and was actively involved in the preparation of raw materials for crystal growth, including some "short-term jobs" that were assigned to him by Johnson (Tr. 550, 598). Additionally, he was involved in the preparation of certain bonding materials used in the encapsulation of crystals (Tr. 596-97). Richert terminated his employment with Harshaw in August of 1968 and accepted a one-year appointment as a visiting lecturer in the Department of Chemistry at John Carroll University. That appointment terminated in August 1969. On September 16, 1969, he received an appointment as an instructor at the Ashtabula branch of Kent State University and has held that position since that time.

Richert prepared the purification procedure for Bicron as a consultant. He completed the procedure in written form "sometime in the first part of December of 1969." He estimated that "actual preparation of the writing and of the procedure, the library work that [he] did" required about 100 to 110 hours (Tr. 557).

58. Richard Spurney is a defendant in this action. Spurney is General Manager and a Director of defendant Bicron (Tr. 942).

Spurney was enrolled at Case Western Reserve in the field of Chemistry until 1961. He then enrolled at Fenn until 1964, when it became Cleveland State University, and attended Cleveland State until the summer of 1969, where he was enrolled in Chemical Engineering in a five-year program.

59. Spurney was employed by Harshaw from May 1961 to December 1966 (Tr. 947). From December 1966 to September 1969 he was employed by General Electric Com-

pany working in optical ceramics and single-crystal sapphire (Tr. 942, 944, 947).

60. In consideration of his employment with Harshaw, Spurney, on May 31, 1961, executed the APPLICATION AGREEMENT (PX 31). Spurney was primarily involved with the growth of crystals, including the "doping" of raw materials and the programming of growth furnaces (Tr. 227-28, 234-35, 985). He was also responsible for reworking platinum crucibles used in the growth of synthetic crystals (Tr. 660-61, 984).

61. Harry Suscheck is a defendant in this action and a Director of defendant Bicron Corporation (Tr. 1131). Although Suscheck, in response to the question, "What is your present position with Bicron?" answered, "I'm General Manager" (Tr. 1132), neither counsel nor the Court sought to reconcile that statement with the statement of Spurney as shown at page 942 of the transcript, i.e., "My name is Richard Spurney. I'm General Manager, Bicron Corporation." Therefore, the Court is compelled to make the finding that Bicron at the time of trial had two General Managers.

62. Suscheck was trained in tool and die and in machine design at Cleveland Engineering Institute. Thereafter, for approximately six and one-half years prior to his being employed by Harshaw he performed primarily design work.

Suscheck was employed by Harshaw in April 1963. In consideration of his employment, Suscheck, on April 6, 1963, executed the APPLICATION AGREEMENT (PX 13). On February 8, 1968, in consideration of his continued employment, Suscheck and Kewanee concurrently executed the TRADE SECRET AGREEMENT (PX 14). For the first three years of his employment with Harshaw he

worked in the Engineering Department doing design work on the detectors. Thereafter, he was given the additional responsibility of production of the final detectors and the title of "Production Manager of Scintillation Detectors." In that capacity he supervised, either directly or indirectly, approximately thirty-five employees (Tr. 1128). Among other things, he was responsible for the encapsulation of scintillation crystals, including the design of containers therefor (Tr. 239-40, 1145). Suscheck did the engineering work on the design of finished units; and he determined what units were to come out of what crystals, which function is a key operation in determining the profit or loss in the operation (Tr. 661).

63. Prior to joining Harshaw, except for Richert's and Menefee's academic training, none of the individual defendants had any experience with respect to the purification of raw materials, growth and/or preparation and encapsulation of scintillation crystals (Tr. 216, 648, 1158, 590). However, each individual defendant acquired experience in one or more of these areas while employed by Harshaw. The evidence establishes that all of the defendants except Richert joined together with the intent to manufacture and market sodium iodide thallium activated crystals; that their first attempt failed; and that until enjoined they were engaged in a second effort to produce scintillation crystals. Whether the defendants have the requisite capability to produce scintillation crystals has not been proved. The sum of the evidence on this point is reflected in the testimony of Swinehart to the effect that in his opinion *they could have* the requisite capability of producing a large crystal such as the 17" sodium iodide thallium activated crystal (Tr. 665-70).

64. Each of the individual defendants occupied a position of trust and confidence with Harshaw, and for this

reason they were given access to various facilities wherein some secretive operations were conducted (Tr. 230-31, 566, 664).

65. Spurney resigned in December 1966 to accept a position with the General Electric Company (Tr. 249, 947). Richert resigned in August 1968 to accept a teaching position at John Carroll University (Tr. 249, 549). Hamner (after receiving Stewart's letter (DX N)) tendered his resignation on July 28, 1969, and terminated his employment as of August 15, 1969 (DX N). He gave as a reason for resigning his desire to attend the New York School of Finance in order to learn how to manage his stock portfolio (Tr. 247). Novak summarily resigned and left Harshaw on September 12, 1969 (Tr. 249, 905). Menefee tendered his resignation on June 9, 1969, and terminated his employment as of July 31, 1969 (Tr. 1068). He indicated to Stewart that he was dissatisfied and was resigning in order to engage in private nuclear consulting activities (Tr. 247, 1077). Suscheck tendered his resignation on August 4 or 5, 1969, and terminated his employment as of August 15, 1969 (Tr. 1130). He stated that his resignation was prompted by the need to devote more time to a plastics company in which he had an interest (Tr. 248).

66. Bicron Corporation is a New Jersey corporation, incorporated by application of its attorney dated August 14, 1969, and formed by Lloyd H. Hamner, Julious M. Menefee, Richard Spurney and Harry Suscheck by Agreement signed August 16, 1969 (Tr. 122-24, 876-77; PX 32, 58).

67. Late in May or in early June of 1969 Menefee, as a result of discussions with Stewart, became discouraged with Harshaw, and on June 9th he informed Stewart he was resigning. He actually left Harshaw July 31, 1969 (Tr.

1087). About the 10th or 11th of June, 1969, he told Hamner of his intention to leave Harshaw (Tr. 1078). Discussions which followed between Menefee and Hamner resulted in an agreement to go into business together. They decided that they would manufacture sodium iodide scintillation devices, the most common product in the nuclear field (Tr. 1079).

68. About the middle of June, 1969, Menefee related his discussions with Hamner to his close personal friend Suscheck. Suscheck became interested in this new business venture (Tr. 1079).

69. At about this time Menefee contacted Spurney, who was employed by General Electric Company, and asked if he would be interested in going into business. Menefee knew Spurney from the time when he was employed by Harshaw (1962-1966) and he was the only crystal grower Menefee knew who was not then working for Harshaw (Tr. 1079-80).

70. Realizing that a chemist would be required to purify the raw materials, Menefee contacted Richert in late June or early July 1969 (Tr. 1080-81). Richert had already accepted a teaching position for the forthcoming academic year, but indicated that he would be willing to act in a consulting capacity with respect to the purification of sodium iodide (Tr. 552-54).

71. On June 20, 1969, a meeting was held at the Brown Derby between Hamner, Menefee, Suscheck and Spurney to discuss the various aspects of starting a business to compete with Harshaw in the manufacture of sodium iodide thallium activated crystals (Tr. 868-69, 979-81). About one week later another meeting was held at Hamner's house which was attended by the same individuals (Tr. 853).

72. After this meeting Hamner consulted with his attorney, Theodore Abeles, about the possibility of forming a corporation and arranged a meeting with Menefee, Suscheck, Spurney and his attorney. On July 2, 1969, Menefee, Suscheck and Spurney met with Hamner's attorney in New Jersey to discuss the promotion of a corporation (Tr. 854, 1080, 1086).

73. After this meeting Menefee took a two-week vacation which he spent at the Cleveland, Case and Kent Libraries and his own personal library documenting each step that would be required in going into the scintillation detector field. Spurney went through the same exercise in his own area. The public literature that was collected was sent to Hamner's attorney for his review and approval, which was given (Tr. 949, 1080, 1086).

74. On August 4, 1969, Spurney contacted Engelhard Industries on behalf of the newly formed business and requested price quotations on a 17-inch diameter platinum crucible (PX 1A; Tr. 65-70, 984).

75. On August 5, 1969, Hamner met with his attorney to discuss the new corporation and on August 6, 1969, Hamner and his attorney flew to Cleveland and met with Menefee, Suscheck and Spurney to discuss the problem of this new corporation (Tr. 855, 1086).

76. Hamner, Menefee and Suscheck were employees of Harshaw when the activities described in Findings 65, 67-75 transpired.

77. Defendants Novak, Richert and Spurney were not employed by Harshaw at the time when they were approached to go to work for Bicron (Tr. 551, 907-08, 947).

78. On August 16, 1969, Hamner, Menefee, Spurney and Suscheck concurrently executed an Agreement forming Bicron Corporation. Pursuant to the terms of the

Agreement, the four individuals comprised the Board of Directors, Hamner being Chairman of the Board and President, and Menefee being Vice President and Secretary. The Agreement expressly recognized the "special abilities" of the parties and included non-competition and non-disclosure provisions (PX 58).

79. After signing the Agreement temporary offices were set up in Menefee's home. Suscheck and Menefee worked together designing and building equipment until approximately September 29, 1969, when they were joined by Spurney and the three continued the project (Tr. 1087).

80. Menefee again contacted Richert in the early part of September 1969, and a meeting followed shortly thereafter at Menefee's house involving Hamner, Spurney, Richert and Menefee. Richert agreed to act as a consultant to Bicron and devise a procedure for the purification of sodium iodide (Tr. 555-56).

81. In early December 1969, Spurney contacted Novak regarding employment by Bicron. Novak accepted the offer and became a Bicron employee on January 1, 1970 (Tr. 908).

82. During the latter part of December or early January 1970, Bicron's plant was completed and operations were shifted there from Menefee's house (Tr. 1007). During the first run the crucible was damaged and forwarded to Engelhard in early March 1970 for repairs (Tr. 87, 90). The crucible was returned to Bicron and a 17-inch diameter crystal was grown and placed in the annealing furnace by mid-April 1970.

83. Each of the individual defendants possessed special abilities with respect to the various facets involved in the production of scintillation crystals and they were selected by Bicron for this very reason. In seeking financ-

ing for its new business, Hamner represented to an investment firm that the product which Bicron planned to manufacture was highly technical, but that some of its personnel had worked at Harshaw and possessed the necessary skills to make the product (Tr. 49, 51). Menefee asked Spurney to join Bicron because he was an expert crystal grower (Tr. 1187); similarly, Richert was selected because he too was an expert in the field of purification (Tr. 1188). The "special abilities" of Hamner, Menefee, Spurney and Suscheck were expressly recognized and dealt with in the Agreement executed by the four individuals (PX 58). Even though Hamner, Menefee and Suscheck knew when they resigned that they were in the process of forming a competing business, this information was never revealed to Harshaw (Tr. 249).

84. On or about August 1, 1969, Suscheck, while still in the employ of Harshaw, prepared a drawing of the proposed Bicron plant for the purpose of obtaining an estimate on the cost of construction (Tr. 1167-68; PX 60).

85. In April or May 1969, Menefee borrowed a book from Mr. Ward, Products Sales Manager for Scintillation Crystals, containing a customer list of scintillation crystal users and representing about 90% or more of the total dollar volume represented by Harshaw's customers (Tr. 509, 1071). Menefee made at least seven copies of the book, giving one copy to Hamner, retaining one copy, and giving the remaining copies to Ward (Tr. 1074). The evidence discloses that at the time he borrowed it Menefee had a perfect right to the book, but fails to disclose whether Menefee and/or Hamner had a copy of this book when they left Harshaw or at the time of trial; nor has there been any evidence that the defendants, or any of them, had made an effort to use any of the information contained in the book. Bicron is confining its sales efforts to four-

teen original equipment manufacturers. There is an association of nuclear instrument manufacturers called "Anim," which includes all of the accounts of interest to Bicron, the total company membership of "Anim" for 1970 being fourteen companies as shown in the "Anim" annual report for 1970 (DX O; Tr. 1075-76).

86. Harshaw started growing 2-inch sodium iodide thallium activated crystals in 1949-1950. By 1950 it was growing 5-inch and 8-inch crystals; by 1956-1957, 10-inch crystals; in the early 1960's, 12-inch crystals; by 1963-64, 14-inch crystals; and in 1966 Harshaw began growing the 17-inch crystals (Tr. 202).

87. Admittedly, Harshaw was well into crystal production years before any of the defendants were employed. The elements and processes described in PX 56 were the results of experiments in which a number of employees participated. "Certainly, a lot of people need to know in order to accomplish the end. These procedures [PX 56] are complex and they depend on everybody doing their part." (Tr. 769). Although Harshaw's success was achieved largely through trial and error practices, its progress was the result of work and study of its own scientists and consultants it employed, as well as patents it had acquired and literature that had been published on the subject of sodium iodide crystals. The entire number of employees engaged in the growth of crystals by Harshaw was not disclosed.

There is no factual dispute over the claim by Harshaw that PX 56 accurately describes the procedures, elements and sub-processes which were being employed by Harshaw on and prior to August 15, 1969.

Counsel for each party, in their briefs and proposed findings, have carefully and skillfully separated each item

in plaintiff's Exhibit 56 and compared the testimony of the individual defendants and of the witnesses for Harshaw insofar as that testimony relates to the functions which each defendant performed while in the employ of Harshaw. In resolving the contradictions between the testimony of the witnesses, I see no need to repeat by rote each item involved.

88. Suffice it to say, I find that Harshaw has proved that Spurney was involved in all aspects of crystal growth, including reworking crucibles, programming furnaces and assisting with furnace loading and melt-out; thus, he became familiar with paragraphs (3) (a) through (3) (f) of PX 56.

89. Suscheck was involved in the encapsulation of crystals, and was responsible for filling customers' orders and cutting to correct size and encapsulating crystals in the proper type of container. In this capacity he became familiar with the procedures employed to perform those operations.

90. Novak worked in the encapsulation department over a six-year period. His activities included the cutting, polishing, grinding and encapsulating of scintillation crystals; thus, he became familiar with Harshaw's encapsulation procedures.

91. Richert in his activities became familiar with the distillation operation incidental to purification.

92. Menefee, due to his high ranking position, was probably familiar with almost all of the elements and procedures described in PX 56.

93. Since Hamner was primarily involved in the sale and application of scintillation crystals, it is unlikely that he was sufficiently familiar with any of the items

described in PX 56 to enable him to use or communicate any of them.

94. Harshaw has failed to establish by the requisite degree of proof that the processes, procedures and manufacturing techniques set forth in paragraphs (1) (a) through (1) (i) of PX 56 are trade secrets of plaintiff.

95. Harshaw has established by the requisite degree of proof that the processes, procedures and manufacturing techniques set forth in paragraphs (2) (a) and (2) (b) of PX 56 are trade secrets of plaintiff.

96. Harshaw has established by the requisite degree of proof that the processes, procedures and manufacturing techniques set forth in paragraph (3) (a) and the following portions of (3) (c) of PX 56 are trade secrets: * * *

97. Harshaw has failed to establish by the requisite degree of proof that the processes, procedures and manufacturing techniques of the following paragraphs of PX 56, (3) (b) (i), (3) (b) (ii), (3) (b) (iii), (3) (b) (iv), and the following described portions of (3) (c), i.e., * * * are trade secrets.

98. Harshaw has established by the requisite degree of proof that the processes, procedures and manufacturing techniques set forth in paragraphs (3) (d) and (3) (f) of PX 56 are trade secrets.

99. Harshaw has failed to establish by the requisite degree of proof that the processes, procedures and manufacturing techniques set forth in paragraph (3) (e) of PX 56 are trade secrets.

100. Harshaw has established by the requisite degree of proof that the processes, procedures and manufacturing techniques set forth in the following paragraphs of PX 56, (4) (a) (i) and (4) (a) (ii), insofar as Har-

shaw employs * * * are trade secrets. However, the use of * * * is not a trade secret.

101. Harshaw has established by the requisite degree of proof that the processes, procedures and manufacturing techniques set forth in paragraphs (4) (b), (4) (c) (i), (4) (c) (ii), (4) (c) (iii), (4) (f), (4) (h) and (4) (i) of PX 56 are trade secrets.

102. Harshaw has failed to establish by the requisite degree of proof that the processes, procedures and manufacturing techniques set forth in paragraphs (4) (d), (4) (e), and (4) (g) of PX 56 are trade secrets.

103. Harshaw has not disputed that it has competitors as identified in finding No. 6. Although Harshaw was a forerunner in the growth of scintillation crystals, there is no evidence from which the Court can determine its present position in the market or the comparable quality of its product. There is a total absence of any proof of the processes, procedures and manufacturing techniques employed by its competitors.

104. With the exception of Hamner, who did not sign either an Application Agreement or a Trade Secret Agreement, and Richert, who signed an Application Agreement but not a Trade Secret Agreement, Harshaw regularly required its employees to execute an Application Agreement and more recently the Trade Secret Agreement.

In February 1968 Harshaw posted on one bulletin board a copy of § 1333.51 Ohio Revised Code, which makes the theft of a trade secret a crime in Ohio. How long it remained on the bulletin board is not known.

Harshaw installed fencing bearing "No Admittance" signs around various plant sites and maintained a security guard therein.

Harshaw marked certain prints and documents with a notice of confidentiality and restricted their distribution to key employees.

105. Harshaw witnesses have insisted that visitors to the areas wherein crystals were being manufactured were required to sign in and were not permitted to observe its trade secrets.

106. Harshaw's witnesses admitted that persons not employees of Harshaw were given access to the Harshaw canning and encapsulation facilities without being required to sign secrecy agreements (Tr. 336, 519-23, 529). Swinehart admitted that persons not employees of Harshaw were taken through the Harshaw purification room (Tr. 814, 822). Harshaw's witnesses admitted that persons not employees of Harshaw were taken through the Harshaw furnace room (Tr. 345, 524, 814). Nothing was covered up or concealed from any visitor during the time they were visiting the Harshaw plant (Tr. 488). No visitor to the Harshaw Elyria facility signed in. There was testimony about visitors signing in and visitor sign-in books but when presented it was found that only the employees of Harshaw signed in (Tr. 409-10, 250, 290-01; DX K, DX L, DX M).

107. Harshaw catalogues and the catalogues of International Nickel and Engelhard Industries have photographs of Harshaw crucibles, Harshaw furnaces, Harshaw string saws, Harshaw dry boxes, Harshaw purification, and Harshaw encapsulation (Tr. 94, 361-72; PX 41 A, DX A, DX B, DX I). Television station Channel 5 made a movie of portions of Harshaw's 97th Street research laboratory and showed it on television (Tr. 329). Professor Smakula from Massachusetts Institute of Technology is a consultant for Harshaw and wrote a textbook on crystal growth, and

he did not clear his book with Swinehart for revelation of trade secrets (Tr. 825). Harshaw has publicized the fact that it grows sodium iodide crystals up to 17 inches in diameter (DX D; Tr. 327). Harshaw is preparing to grow a 30-inch sodium iodide thallium activated crystal (Tr. 355). Harshaw has shown, in an advertisement, a photograph of a sodium iodide thallium activated crystal with a cone angle of 135° (Tr. 1135; DX W). Harshaw makes no claim that a 135° angle is a trade secret of Harshaw (Tr. 792).

108. Based upon findings Nos. 105, 106 and 107, and upon all the evidence in the case including the fact that other employees of Harshaw were permitted to work on and observe Harshaw's claimed trade secrets, the Court finds that not sufficient disclosure occurred so as to place the claimed trade secrets in the public domain.

109. The Court finds that plaintiff has failed to establish by the requisite degree of proof that the named defendants breached any fiduciary or other duty by going into competition with Harshaw or by planning to go into competition with Harshaw while still in Harshaw's employ.

The evidence is undisputed that Bicron was planned and came into existence as the result of the concerted action of the individual defendants. Therefore, plaintiff's contentions that Bicron induced the individual defendants to breach their confidential relationship with plaintiff; that Bicron solicited the individual defendants to disclose plaintiff's trade secrets to Bicron; that Bicron unjustly enriched itself at the expense of plaintiff through the disclosure and use of plaintiff's trade secrets; and that Bicron is guilty of unfair competition are without merit.

110. A complaint was filed against the defendants on Friday, April 17, 1970, and served upon those defendants on Monday, April 20. Simultaneously, plaintiff filed a "Motion for Order to Show Cause and Temporary Restraining Order" which was based upon the affidavits of Elmer C. Stewart and Carl F. Swinehart and the Certificate of Edward P. Troxell. This motion was granted and an order was entered on April 17, 1970.

Also on April 17, 1970, "Notice to Take Depositions on Oral Examination" and "Motion for Leave to Depose the Individual Defendants Within the Period of Twenty Days Next Following the Filing of the Complaint" were filed by the plaintiff. . All the defendants were deposed by counsel for the plaintiff on May 6 and May 7, 1969, at which time all the documents, drawings, and other papers of defendant Bicron Corporation were turned over to plaintiff's counsel for review and copying (Tr. 1132).

CONCLUSIONS OF LAW

1. This Court has jurisdiction of the parties and of the subject matter of this action.

2. Since the jurisdiction of this Court is premised upon diversity of citizenship, the law of Ohio is controlling with respect to all substantive matters. *Erie v. Tompkins,* 304 U.S. 64 (1938); *W.R. Grace & Co. v. Hargadine,* 392 F.2d 9 (6th Cir. 1968).

3. Ohio has adopted the Restatement's definition of trade secrets, *B. F. Goodrich Co. v. Wohlgemuth,* 117 Ohio App. 493, 192 N.E. 2d 99 (1963), which provides in part:

> "A trade secret may consist of any formula, pattern, device or compilation of information which is

used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers * * * A trade secret is a process or device for continuous use in the operation of the business. Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article. * * *" Restatement of the Law of Torts, 5, Section 757, Comment b.

4. The individual defendants held positions of trust while at Harshaw, thereby creating a confidential relationship, and they owed a duty of loyalty and fidelity to their employer. *Du Pont Powder Co. v. Masland,* 244 U.S. 100 (1917).

In *Goodrich v. Wohlgemuth,* supra, at page 293, the court stated:

"In cases of this character the law does not require an agreement between an employer and employee restricting the employee from securing employment with a competitor before an injunction may issue.

"It is a rule in equity jurisprudence that, if an employee gains knowledge of his employer's trade secrets as a result of the confidential relationship existing between employer and employee, and, in violation of the confidence, discloses such secrets to competitors after the termination of his employment, such abuse of confidence may be enjoined. The basis for equitable intervention is the employee's wrongful conduct in violating the confidence. Equitable intervention is sanctioned when it appears, as it does in the instant

case, that there exists a present real threat of disclosure, even without actual disclosure."

On this score see 35 Ohio Jurisprudence (2d), 700, Section 78, wherein it is stated as follows:

"The employee is bound to the utmost good faith toward his employer and to be loyal and faithful to his interests and to not act in antagonism or serve a private interest of his own in opposition thereto."

"There is an implied agreement on the part of the employee that he will faithfully serve and be regardful of the interests of his employer *during the term of his service* and carefully discharge his duty to the extent reasonably implied by the relation of employer and employee."

5. The test for determining the existence of enforceable trade secrets is stated at page 13 of *W.R. Grace & Co. v. Hargadine*, supra, as follows:

"Since this case is brought under federal diversity jurisdiction and the alleged misappropriations took place principally in Ohio, we start with appellant's own trade secret tests drawn from Ohio law. In Cincinnati Bell Foundry Co. v. Dodds, 10 Ohio Dec. Rep. 154, 19 Weekly L.Bull. 84 (Super. Ct. 1887), Judge William Howard Taft provided this classic if simplified test:

'1st. Was the process a secret one?

'2d. Did John B. Dodds acquire knowledge of it in confidence, and under an implied obligation not to use or disclose it?' Cincinnati Bell Foundry Co. v. Dodds, supra at 156."

The Court applied the above test in its findings Nos. 94 to 102 inclusive in determining which processes, procedures and mechanical techniques desribed in PX 56 are trade secrets and those which are not.

6. The facts disclose that the first effort of the defendants to grow a sodium iodide thallium activated scintillation crystal failed, and at the time this suit was filed the defendants were engaged in a second effort. The defendants admit their intention to manufacture a crystal in competition with the plaintiff. The facts disclose, without a question of doubt, that the defendants have the capability to manufacture such a product notwithstanding their admission that they do not know whether or not the procedures described by Richert (DX A) will succeed in growing a sodium iodide thallium activated scintillation crystal. The plaintiff has submitted convincing proof not only that the Richert formula (DX A) will not grow such a crystal but also that in order to grow a sodium iodide thallium activated scintillation crystal the defendants must, of necessity, supplement the Richert formula with plaintiff's trade secrets.

The Court concludes that there is an imminent danger of disclosure of plaintiff's trade secrets to Bicron and the use of these trade secrets by Bicron.

7. The Court is fully aware of the two apparently conflicting principles of law involved in the present proceeding. On one extreme lies the principle that an individual has the right to change his employment for whatever reason he wishes and the right to utilize his general skill, knowledge and experience for the benefit of his employer. Indeed it is inevitable that some of the knowledge acquired while in the former employment should be made available to the new employer, and courts will not deprive

the employee of the right to use the skill he developed through the years.

At the other end of the spectrum is the law of unfair competition, including trade secrets law, in which the courts seek to enforce increasingly high standards of fairness or commercial morality and to protect the owner of information obtained through the ingenuity and effort of its employees, and its expenditures of time and money.

8. This Court has formulated an order which will strike a proper balance between the public policy of protecting and encouraging the right of the individual to pursue his livelihood in the vocation he chooses, and the rights of an employer to its accumulated trade secrets obtained by the expenditure of great amounts of time and money.

The plaintiff is granted an injunction in accord with the terms of the Court's order filed simultaneously herewith.

GIRARD E. KALBFLEISCH
United States Senior District Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION
(Title omitted in printing)

ORDER SUPPLEMENTAL TO MEMORANDUM OF DECISION

(Filed November 24, 1970)

In order not to disclose to the general public the trade secrets concerning which testimony was given in the course of the trial of this case, the courtroom was closed to all except court officials, the parties and their counsel and witnesses. Consistent with this action the exhibits and the Memorandum of Decision will remain impounded until further order of the court, except that the Clerk may, on inquiry, disclose to persons, other than the parties and their counsel, those conclusions of law and fact which do not contain any naming or description of equipment, materials or procedures mentioned in the exhibits and memorandum of decision concerning the production of sodium iodide thallium activated scintillation crystals.

GIRARD E. KALBFLEISCH
United States Senior District Judge

ORDER FOR PERMANENT INJUNCTION

(Filed November 24, 1970)

Civil Action No. C 70-363

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

KEWANEE OIL COMPANY,
Plaintiff,

vs.

BICRON CORPORATION, *et al.*,
Defendants.

ORDER FOR PERMANENT INJUNCTION

This cause having come on for hearing on an Order to Show Cause entered April 17, 1970, and having heard and considered all the testimony submitted herein, and having considered the verified complaint, together with the affidavits submitted in support of the temporary restraining order, the entire record, proceedings, briefs, and arguments of counsel, and the Court being fully advised in the premises;

A. IT IS ORDERED that defendants Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Thomas H. Richert, Richard W. Spurney and Harry Suscheck, their agents, servants, employees, and attorneys and all persons in active concert and participation with them be and are hereby restrained from:

(1) Using and/or communicating or divulging either orally or in writing, or otherwise, to any per-

son, firm, corporation, or other person whomsoever, the trade secrets of plaintiff, as identified in Findings Nos. 94 to 102 inclusive.

(2) Accepting or undertaking any employment by or engaging in any work assignment for any person, firm or corporation, and particularly the defendant Bicron Corporation, or any company related thereto, which could encourage, require, permit, call for or result in the disclosure and/or use of the trade secrets of plaintiff, referred to in item A (1) herein.

B. IT IS FURTHER ORDERED that defendant Bicron Corporation, its officers, directors, agents, servants, employees and attorneys and all persons in active concert and participation with them, be and are hereby restrained from:

(1) Persuading, enticing, and inducing defendants Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Thomas H. Richert, Richard W. Spurney and Harry Suscheck, or any of them, or any other employee or former employee of plaintiff, to disclose any trade secrets and confidential information of plaintiff acquired by him, or imparted to him.

(2) Using and/or communicating or divulging either orally or in writing, or otherwise, to any person, firm, corporation, or other person whomsoever, the trade secrets of plaintiff, as hereinbefore referred to in item A (1), acquired by it, or imparted to it, by defendants Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Thomas H. Richert, Richard W. Spurney and Harry Suscheck.

C. IT IS FURTHER ORDERED that defendants, Bicron Corporation, Lloyd H. Hamner, Julious M. Menefee, Wil-

liam P. Novak, Thomas H. Richert, Richard W. Spurney and Harry Suscheck, their agents, servants, employees and attorneys and all persons in active concert and participation with them be and are hereby required to immediately deliver up to plaintiff any and all originals and copies of any nature whatsoever, of notes, work papers, charts, blueprints, drawings, sketches, books correspondence, memoranda, photographs, test data, research and development reports, specifications, designs, and any and all other tangible things in their possession or control which constitute, represent, evidence, reflect or record the trade secrets of plaintiff, as hereinbefore referred to in item A (1).

D. It Is Further Ordered that defendants, Bicron Corporation, Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Thomas H. Richert, Richard W. Spurney and Harry Suscheck shall not be restrained by this injunction from using any trade secret of plaintiff after it has been released to the public by plaintiff, such as by the issuance of a patent, or has otherwise become generally available to the public, or other members of the industry, or is obtained by defendants from sources having the legal right to convey such information.

Girard E. Kalbfleisch
United States Senior District Judge

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION
(Title omitted in printing)

NOTICE OF APPEAL

(Filed December 2, 1970)

Notice is hereby given that defendants Bicron Corporation, Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Richard W. Spurney and Harry Suscheck hereby appeal to the United States Court of Appeals for the Sixth Circuit from the "Order for Permanent Injunction" entered in this action on the 24th day of November, 1970.

Respectfully submitted,

BICRON CORPORATION
LLOYD H. HAMNER
JULIOUS M. MENEFEE
WILLIAM P. NOVAK
RICHARD W. SPURNEY
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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION

NOTICE OF APPEAL

(Filed December 7, 1970)

Notice is hereby given that plaintiff, Kewanee Oil Company, hereby appeals to the United States Court of Appeals for the Sixth Circuit from the "Order for Permanent Injunction" entered in this action on the 24th day of November, 1970.

Respectfully submitted,

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KEWANEE OIL COMPANY

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF OHIO
EASTERN DIVISION
(Title omitted in printing)

ORDER FOR INJUNCTION PENDING APPEAL

(Filed December 14, 1970)

This cause came on to be heard on motion of plaintiff for an injunction pending appeal to the United States Court of Appeals for the Sixth Circuit, and it appearing to the Court that plaintiff is entitled to such injunction to preserve the status quo pending appeal and thereby prevent irreparable injury to the plaintiff, and upon consideration IT IS HEREBY ORDERED:

1. The motion of plaintiff for injunction pending appeal is hereby granted;

2. The defendants, Bicron Corporation, Lloyd H. Hamner, Julious M. Menefee, Harry Suscheck, Richard W. Spurney, William P. Novak, and Thomas S. Richert, and each of them, are hereby restrained and enjoined from disclosing, divulging, using, employing, or publishing the following trade secrets: 1(b); 1(c); 1(d); 1(e); and 1(i); 3(b) (ii), (iii) and (iv); 3(e); 4(d); 4(e); and 4(g), as each appear in plaintiff's Exhibit 56, until such time as the United States Court of Appeals for the Sixth Circuit rules upon, determines, adjudges and decides the issues raised by the various notices of appeal filed herein. This injunction order is in addition to the Court's permanent injunction order filed on November 24, 1970, and entered pursuant to Rule 77 (d) Fed. R. Civ. P. on November 25, 1970;

3. This order is granted upon the condition that the plaintiff post with this Court a bond in the sum of

$50,000.00, said bond to be first approved by this Court, to be effective during the pendency of the appeals noted and filed herein.

GIRARD E. KALBFLEISCH
United States Senior District Judge

REFERENCE TO THE OPINION AND JUDGMENTS OF THE COURT OF APPEALS

The opinion of the United States Court of Appeals for the Sixth Circuit, filed May 10, 1973, has been reproduced as Appendix A, pages A1-A25, to the Petition for Writ of Certiorari.

The judgment of the United States Court of Appeals for the Sixth Circuit in Case No. 71-1041, filed May 10, 1973, has been reproduced as Appendix B, pages A26-A27, to the Petition for Writ of Certiorari.

The judgment of the United States Court of Appeals for the Sixth Circuit in Case No. 71-1042, filed May 10, 1973, has been reproduced as Appendix C, pages A27-A28, to the Petition for Writ of Certiorari.

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In the Supreme Court of the United States

October Term 1972
No. 73-187

KEWANEE OIL COMPANY,
Petitioner,

vs.

BICRON CORPORATION, LLOYD H. HAMNER, JULIOUS M. MENEFEE, WILLIAM P. NOVAK, RICHARD W. SPURNEY and HARRY SUSCHEK,
Respondents.

PETITION FOR WRIT OF CERTIORARI
To the United States Court of Appeals
For the Sixth Circuit

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In the Supreme Court of the United States

October Term 1972

No. _____

KEWANEE OIL COMPANY,
Petitioner,

vs.

BICRON CORPORATION, LLOYD H. HAMNER, JULIOUS M. MENEFEE, WILLIAM P. NOVAK, RICHARD W. SPURNEY and HARRY SUSCHEK,
Respondents.

PETITION FOR WRIT OF CERTIORARI
To the United States Court of Appeals
For the Sixth Circuit

Kewanee Oil Company prays that a writ of certiorari issue to review the decision of the United States Court of Appeals for the Sixth Circuit entered in this case on May 10, 1973.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Sixth Circuit (Appendix A, *infra*, pp. A1-A25) is not yet reported. The opinion of the District Court is not reported. By order of the District Court it has been sealed, since it contains extensive discussion of trade secrets.

It is not believed to be necessary for the purposes of this petition. No question with respect to it is raised in this petition because the facts and conclusions of the District Court are summarized in the Court of Appeals decision. By permission of the office of the Clerk of this Court the opinion of the District Court is not reproduced.

JURISDICTION

The judgments of the Court of Appeals (Appendix B, *infra*, pp. A26-A27, and Appendix C, *infra*, pp. A27-A28) were entered May 10, 1973. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

QUESTION PRESENTED

Whether the Constitution and the federal Patent Act preempt and make ineffective State laws which protect against disclosure or use of trade secrets in breach of duties imposed by contract or a confidential relationship?

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Constitution of the United States:

Article I, section 8.

The Congress shall have Power . . .

To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . . .

Article VI, second paragraph.

This Constitution, and the Laws of the United States which shall be made in Pursuance thereof . . . shall be the supreme Law of the Land; . . . any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

Statutes:

35 U.S.C. § 101.

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

35 U.S.C. § 102.

A person shall be entitled to a patent unless— . . .

(b) the invention was . . . in public use . . . in this country, more than one year prior to the date of the application for patent in the United States . . . .

STATEMENT

In 1949 The Harshaw Chemical Company[1] began the research and development in the field of the commercial manufacture (growing) of synthetic scintillation crystals

1. In 1949 the Harshaw Chemical Company was an independent corporation. Subsequently, and at all times pertinent to this petition, it became an unincorporated division of Kewanee, the petitioner. In this petition, Harshaw and Kewanee are referred to collectively as "petitioner" and "Kewanee".

used in the measurement of radio isotopes and outer space radiation.

Over the years petitioner developed manufacturing processes, methods and techniques that enabled it to produce progressively larger crystals. At the times under consideration, none of its competitors had achieved similar accomplishments in crystal growth. Both courts below found that twenty of petitioner's specific processes, procedures and techniques employed in (1) purifying raw materials, (2) growing crystals and (3) preparing and encapsulating the crystals constituted trade secrets entitled to certain limited protection in accordance with Ohio law (App. A, *infra*, pp. A1, A2 and A5).

The individual respondents are former employees of petitioner to whom its trade secrets were confidentially imparted in the course of their employment. Each individual respondent had executed one or more agreements promising not to use or disclose those trade secrets. Four of the individual respondents formed the corporate respondent, Bicron Corporation, to compete with petitioner by using its secret processes, procedures and techniques to manufacture scintillation crystals.

Both courts below found "there can be no question" that the individual respondents had obtained Harshaw's trade secrets during their employment and "appropriated, to the benefit of Bicron, Harshaw's secrets, processes, procedures and manufacturing techniques." (App. A, *infra*, p. A3).

Petitioner brought this action (based on diversity jurisdiction) to redress these breaches of the lawful restrictions on respondents' use of petitioner's trade secrets. 28 U.S.C. § 1332. There is no suggestion that petitioner has ever sought, by litigation or otherwise, to interfere with the

rights of any third party to develop independently and freely use any of the processes, procedures or techniques used by petitioner. The injunction sought and obtained against respondents was solely to prevent their unauthorized use of petitioner's trade secrets, not to prevent competition in the manufacture or sale of scintillation crystals.

The District Court found that there was a violation of contract and fiduciary responsibility with respect to twenty of the claimed trade secrets, and it entered an injunction against their disclosure and use. As to the other twenty claimed trade secrets, the District Court held that they were not entitled to protection, and on them it entered judgment for the defendants. Both sides appealed to the Court of Appeals.

The Sixth Circuit found that the District Court had properly applied Ohio law in determining that the respondents were wrongfully using petitioner's trade secrets, and stated it would have affirmed the trial court's injunction if the case were to be decided as a matter of Ohio trade secret law. (App. A, *infra*, p. A5). However, it reversed the permanent injunction because it found that the field of protection which State trade secret law affords an inventor of a patentable invention "has been preempted by the Patent Laws of the United States." (App. A, *infra*, p. A25).[2]

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2. No question of fact is raised by this petition.

The district court entered an injunction as to twenty trade secrets and refused an injunction as to another twenty trade secrets. Both sides appealed to the court of appeals, and that court upheld the findings of the district court. (App. A, *infra*, p. A5). This petition seeks review only of that part of the decision below which refused to sustain the injunction granted by the district court on the ground that the state law of trade secrets had been preempted by the patent laws.

REASONS FOR GRANTING THE WRIT

1. The Decision Below Is in Conflict with Decisions of Four Other Courts of Appeals.

As the Court of Appeals recognized in its opinion (App. A, *infra*, pp. A8 and A25), the decision which it reached is in conflict with the decisions of other Courts of Appeals in the cases of *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971), *Servo Corp. of America v. General Electric Co.*, 337 F.2d 716 (4th Cir. 1964), *certiorari denied*, 383 U.S. 934 (1966), *Water Services, Inc. v. Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969), and *Dekar Industries, Inc. v. Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), *certiorari denied*, 402 U.S. 945 (1971).[3] See also *Bendix Corp. v. Balax, Inc.*, 421 F.2d 809, 821 (7th Cir. 1970), *certiorari denied*, 399 U.S. 911 (1970).

The conflict which now exists casts a severe cloud on trade secret protection, not only within the Sixth Circuit, but throughout the country, for all parties to trade secret arrangements will have to take steps to protect their interests as long as the conflict exists. For the time being, misappropriation of trade secrets will find a haven in the Sixth Circuit, and all owners and users of trade secrets will be faced with uncertainty. No precise figures are available as to the value of trade secrets or the amount of royalties paid for their use, but Judge Friendly was surely correct in saying that the annual United States trade secret licensing revenue from foreign sources alone is "very large." *Painton & Co. v. Bourns, Inc., supra*, 442 F.2d at 226, n. 7.

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3. The Ninth Circuit repeated this conclusion in *Clark v. Bunker*, 453 F.2d 1006, 1008 (1972).

The conflict of decisions is direct and acknowledged,[4] and the issue is a substantial and important one involving the interaction of federal and state law. The question should be resolved by a decision of this Court.

2. The Decision Below Misapplies Decisions of This Court in Holding That State Trade Secret Law Has Been Preempted by the Patent Law.

The decision of the Court of Appeals is based on a misapplication of decisions of this Court, notably *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). See also *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), especially the dissenting opinion of Black, J., 395 U.S. at 676-677.

Sears and *Compco* did not involve trade secrets. They did not arise, as here, under the ordinary equitable principles protecting against breach of contract and breach of a clear fiduciary relationship. The claim in *Sears* and *Compco* was based on the "palming off" aspect of Illinois unfair competition law, which undertook to give protection against any competitor where there was a "likelihood of confusion as to the source of the products." Sears had obtained a patent and this was held invalid. What it

---

4. There is also a virtual conflict within the Sixth Circuit itself. Subsequent to the decision in the present case, a wholly different panel of the court, on June 1, 1973, decided the case of *United States v. Greenwald*, which is set out as Appendix E, *infra*, pp. A32-A35. In the *Greenwald* case Chief Judge Phillips, Circuit Judge McCree, and District Judge Pratt sustained a conviction for transporting in interstate commerce certain "secret chemical formulae." It was held that these formulae constituted "goods, wares or merchandise" within 18 U.S.C. 2314. This necessarily involved the recognition of trade secrets, which exist only under state law, and the further fact that the state law of trade secrets is not invalidated or preempted by the federal Patent Law.

sought to obtain in the suit was essentially the same protection under Illinois unfair competition law as would have been available to it if its patent had been valid.

The petitioner here makes no such claim. It concedes that it is entitled to no protection against the world at large, and that its trade secrets are viable and valuable only as long as they remain secret. What it seeks to do in this suit is to preserve that secrecy against parties who are bound by contract or by fiduciary relationship not to divulge the secret. Thus, the case essentially involves only traditional principles of equity jurisdiction, and turns on a claim which is quite distinguishable from the patent laws.

The point was well made by Judge Friendly in his opinion in *Painton & Co. v. Bourns, Inc., supra,* 442 F.2d at 223, when he said:

> The argument is that for a state to recognize an agreement requiring payment for trade secrets during its term or their return and a cessation of use on its expiration, would run afoul of the determination in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 . . . (1964), and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 . . . (1964), that state laws prohibiting the copying of articles not protected by valid patents or copyrights but offered for public sale were inconsistent with the federal patent and copyright laws. In his partial dissent in *Lear*, Mr. Justice Black explained those decisions, which he had written for the Court, as resting on the basis "that no State has a right to authorize any kind of monopoly on what is claimed to be a new invention, except when a patent has been obtained from the Patent Office under the exacting standards of the patent laws," 395 U.S. at 677, 89 S.Ct. at 1914.

> With great respect, this very statement seems to us to show the inapplicability of *Sears* and *Compco* to the problems at issue in the disputed portion of *Lear* and here discussed. The Illinois law of unfair competition invalidated in *Sears* and *Compco* did confer a monopoly against copying an article otherwise in the public domain, a monopoly good against non-contractors just as a patent or copyright would have been. As Mr. Justice Black there pointed out, the Illinois law afforded protection quite similar to that given by the patent and copyright statutes [footnote omitted] but free from their safeguards and limits of time. An agreement licensing a trade secret is an altogether different matter. It binds no one except the licensee; all others are free, as the licensee previously was, to attempt by fair means to figure out what the secret is and, if they succeed, to practice it [footnote omitted].

The inapplicability of *Sears*, *Compco*, and the dissenting view in *Lear* to the ordinary protection of trade secrets against breach of contract or breach of fiduciary duty is supported by the decision of this Court in *Goldstein v. California*, No. 71-1192, decided June 18, 1973. The Court there held that the copyright power given to Congress by the Constitution and the enactment of the Copyright law did not preempt the area so that California could not proscribe the copying of freely available recorded performances.

In *Goldstein*, the Court distinguished *Sears* and *Compco*, saying:

> The application of state law in these cases [*Sears* and *Compco*] to prevent the copying of articles which

> did not meet the requirements for federal protection disturbed the careful balance which Congress had drawn and thereby necessarily gave way under the Supremacy Clause of the Constitution. No comparable conflict between state law and federal law arises in the case of recordings of musical performances . . . and no reason exists why the State should not be free to act.

Similarly here, there is no conflict between the limited protection given by state law against breaches of contract and of fiduciary duty by specific individuals and the monopoly given against the world by the patent laws. The two can coexist, and, indeed, must be preserved together unless our traditional and long established law of trade secrets is to be written off the books.

While the decision below stands it will invite an open season for the most callous kind of industrial espionage. The long-established duty of loyalty of a fiduciary will no longer be effective with respect to trade secrets, despite the fact that the law of trade secrets and the patent law have existed side by side for well over a century. Since trade secrets provide no protection against the world, and are effective only so long as the secret is maintained, there is no inherent inconsistency between the two. The decision below is based upon a theoretical conflict, which will not withstand analysis. Its effect is to destroy an area of the law which is well-established, and which has proven its usefulness in industry and commerce, foreign as well as domestic. No such change is required or warranted, and the doubts raised by the decision below can only be removed by a decision of this Court.

3. The Decision Below Is Contrary to Applicable Decisions of This Court, and to Relevant Provisions of Acts of Congress.

This Court has repeatedly recognized the validity of trade secrets.

In *Becher v. Contoure Labs., Inc.*, 279 U.S. 388 (1929), the Court held that State trade secret causes of action for "the breach of a contract or wrongful disregard of confidential relations [are] both matters independent of the patent law, and that the subject matter of [the] claim was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust." *Id.* at 391.

This Court's decision in *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1933), is the natural corollary of *Becher*. In *Dubilier*, the Court recognized that an inventor has an election: to seek a patent and make disclosure in exchange for 17 years of exclusive rights against all who use the invention, or to "keep his invention secret and reap its fruits indefinitely." *Id.* at 186-187. The Sixth Circuit's decision plainly conflicts with *Dubilier's* recognition that an inventor has the right to retain his conception as a protectable trade secret, and *Becher's* recognition that a trade secret owner's right to use his trade secret, and to enforce restrictions based on contractual and confidential relationships, is a right independent of the patent law.

Board of Trade v. Christie Grain & Stock Co., 198 U.S. 236, 250-251 (1905), shows that a trade secret owner's rights are not lost by communicating the secret to persons bound by contract or confidential relationship not to use or disclose it.

The Sixth Circuit's opinion is based on the notion that if a matter is appropriate for a patent and is used commercially for more than one year, state trade secret protection conflicts with section 8, clause 8 of Article I of the U.S. "Constitution and the Patent Laws adopted pursuant thereto." (App. A, *infra*, pp. A7-A8). The conclusion that the enactment of the Patent Act amounts to preemption under Article I, section 8, clause 8 appears to clash with this Court's decision in *Goldstein*, to which reference has already been made. This Court there found that enactment of the Copyright Act pursuant to the same constitutional clause did not foreclose compatible State legislation. State trade secret law is similarly compatible with and, in fact, complementary to the Patent Act. This is true primarily because the Patent Act grants exclusive rights to patentees and hence altogether precludes copying or independent development by others whereas trade secret law encourages copying of all matter used by a trade secret owner in secrecy (such as petitioner's processes and procedures). Only a very narrow, limited class of persons (those who learned the trade secret in a contractual or confidential relationship with the owner) can be enjoined from using a trade secret, and then only so long as the matter remains secret. See *Forest Labs., Inc. v. Pillsbury Co.*, 452 F.2d 621, 624 n. 4 (7th Cir. 1971).

Congress, which enacted the Patent law, has repeatedly made it clear that it did not regard its patent legislation as preempting the law of trade secrets.

A large number of statutory provisions requiring the recognition and preservation of trade secrets, in varying

situations, are referred to in the margin.[5] It would be odd indeed to hold that Congress in enacting these numerous provisions was engaged in an exercise of futility. It is clear enough that Congress has never contemplated that the law of trade secrets was preempted by the Patent Law.

Indeed, Congress has provided that an officer or employee of the United States commits a crime if he dis-

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5. See the Freedom of Information Act, 5 U.S.C. § 552(b)(4) (1970), prohibiting federal agency disclosure of trade secrets; 18 U.S.C. § 1905 (1970), making it a federal crime for a United States officer or employee to wrongfully disclose a trade secret; § 24 of the Securities Exchange Act of 1934, 15 U.S.C. § 78x(a) (1970), preventing the SEC from requiring that trade secrets or processes be revealed; § 6(f) of the Federal Trade Commission Act, 15 U.S.C. § 46(f) (1970), preventing the FTC from making trade secrets public; the Economic Stabilization Act of 1970, 12 U.S.C. § 1904, § 205 (Supp. 1973), requiring agency respect for the integrity of trade secrets; 15 U.S.C. § 1193(c) (1970), requiring trade secrets received by the Commerce Department in reference to fabric-flammability regulations to be considered confidential; 15 U.S.C. § 1263(h) (1970), prohibiting any person from using or disclosing trade secrets acquired in connection with HEW inspection and investigation of hazardous substances; 15 U.S.C. § 1401(e) (1970), requiring trade secrets received in Department of Transportation inspection and investigation of federal vehicle safety standards to be considered confidential; 21 U.S.C. § 331(j) (1970), prohibiting any person from wrongfully using or disclosing information concerning methods or processes required under the Federal Food, Drug, & Cosmetic Act, which are trade secrets; 21 U.S.C. § 458(a) (5) (1970), prohibiting use or disclosure of trade secrets acquired under the Poultry Products Inspection Act; 33 U.S.C. § 1160(f) (2) (1970), excluding trade secrets from being disclosed at public hearings under the Federal Water Pollution Control Act; 42 U.S.C. § 263i(e) (1970), prohibiting disclosure by HEW of trade secrets obtained in enforcing the Radiation Control for Health and Safety Act of 1968; 42 U.S.C. § 1857d(c) (5) (Supp. V, 1965-1), providing that no witness shall be required to divulge trade secrets in any hearings under the Clean Air Act; 42 U.S.C. § 1857f-6c(c) (Supp. V, 1965-1), requiring trade secrets obtained by HEW in connection with registration of vehicle fuel additives to be considered confidential; and 35 U.S.C. § 122 (1970), providing for the preservation of applications for patent in secrecy until the patent issues, i.e., until the applicant knows what patent protection he is going to get and thereafter authorizes issuance of the patent. See also Rule 26(c) of the Federal Rules of Civil Procedure, and Rule 508 of the Rules of Evidence proposed last term by this Court.

closes a trade secret. 18 U.S.C. 1905 (1964). And we have already pointed out that another panel of the court below has recently held in *United States v. Greenwald*, see Appendix E, *infra*, pp. A32-A35, that a federal crime is committed when a stolen trade secret is transported in interstate commerce.

Thus, the decision below, at one stroke, for all practical purposes, writes away decisions of this Court, and many Acts of Congress, which have recognized the validity of trade secrets protected under State law. A decision so sweeping, and so far inconsistent with the prior understanding of an important element in our legal structure should be reviewed by this Court.

4. The Decision Below Uses Federal Law to Strike Down an Important Area of State Law Relating to Trade Secrets and Thus Presents an Important Question of Federal Law Which Should Be Decided by This Court.

The Ohio law of trade secrets is not a deviant or exotic bit of law. It finds its counterpart in English law and in the law of all the states. In substance it rests on traditional equitable principles which provide a remedy for a breach of contract or for a breach of fiduciary responsibility when a remedy for damages at law would not provide adequate relief.

More than eighty years ago, the law of trade secrets was recognized by Taft, J., when he was Judge of the Superior Court of Cincinnati, Ohio. This was in *Cincinnati Bell Foundry Co. v. Dodds*, 19 Ohio Weekly L. Bull. 84, 10 Ohio Dec. Rep. 154 (1887), where in refusing to dissolve a preliminary injunction, he said:

> It is clearly established in the case of *Peabody v. Norfolk*, 98 Mass. 452, that he who discovers and keeps secret a process of manufacture, whether a proper subject for a patent or not, has a property in it which a court of equity will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons. He has not an exclusive right to it as against the public or against those who, in good faith, acquire knowledge of it.

This succinct statement of the law of trade secrets is consistent with the established law of many states.[6] See MILGRIM, TRADE SECRETS § 2.01 (1970), which collects 80 citations from 15 states and every federal circuit. These cases frequently cite with approval Section 757 of the RESTATEMENT OF TORTS, and particularly comment b, which is reproduced in Appendix D, *infra*, pp. A28-A31. See, for example, *B. F. Goodrich Co. v. Wohlgemuth*, 117 Ohio App. 493, 192 N.E.2d 99, 104 (1963).

No reason is perceived why this law should now be uprooted and discarded. The purported ground of pre-

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6. Compare the similar language in *Salomon v. Hertz*, 40 N.J. Eq. 400, 2 A. 379, 380-81 (1886): "One who invents or discovers and keeps a secret process of manufacture, whether patentable or not, has a property therein which this court will protect against one who, in violation of contract and breach of confidence, undertakes to apply it to his own use or discloses it to a third person."

The venerability and established acceptability of this part of the law is also shown by the following quotation from Mitchell, *Unfair Competition*, 10 HARV. L. REV. 275, 295-96 (1896)—footnotes omitted: "The communication or use of a trade secret by one who is bound in good conscience not to use or communicate it will be restrained, and the equity will follow the secret into the hands of all who take with notice; but when fairly discovered or taken without notice it is free."

emption is, in these circumstances, neither required by any real or practical conflict between the law of trade secrets and the patent law nor does it serve any useful or practical purpose. See Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy*, 80 HARV. L. REV. 1432, 1450, 1454 (1967). See also Note, *Trade Secrets Law after Sears and Compco*, 53 VA. L. REV. 356 (1967). Certainly no such result should be brought about without review by this Court.

At the very least, if such a change is to be made in long established and thoroughly accepted law, it should not be done with retroactive effect. *Cf. Linkletter v. Walker*, 381 U.S. 618 (1965); *Great Northern R. R. Co. v. Sunburst Oil & Refining Co.*, 287 U.S. 358, 364 (1932).

CONCLUSION

The decision below is in conflict with decisions of other courts of appeals. It misapplies decisions of this Court. In striking down an important area of state law, it raises a question of federal law and of federal-state relations which should be decided by this Court.

The petition for certiorari should be granted.

Respectfully submitted,

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July 27, 1973

APPENDIX A

Opinion of the Court of Appeals

(Filed May 10, 1973)

Nos. 71-1041 & 71-1042

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

KEWANEE OIL COMPANY,
Plaintiff-Appellant,

v.

BICRON CORPORATION, et al.,
Defendants-Appellees.

APPEAL from the United States District Court for the Northern District of Ohio, Eastern Division.

Decided and Filed May 10, 1973.

Before: PECK, MILLER and KENT, Circuit Judges.

KENT, Circuit Judge. This is an appeal and cross-appeal from a judgment of the District Court which held that the plaintiff-appellant, Kewanee Oil Company, had a protectable property right in 20 of its 40 claimed trade secrets in suit. The District Court granted a permanent injunction which enjoined defendants-appellees from disclosing and/or using the 20 trade secrets in question. The District Court found that Kewanee had failed to establish that the remaining 20 processes, procedures and manu-

facturing techniques were in fact trade secrets. Kewanee appealed on the theory that all 40 claimed trade secrets should have been protected while Bicron Corporation and the individual defendants filed a cross-appeal maintaining that none of the 40 alleged trade secrets should have been protected.

Kewanee, through its unincorporated subordinate division, Harshaw Chemical Company (hereinafter Harshaw or Kewanee), manufacturers various types of synthetic crystals. The products resulting from the use of the alleged trade secrets here in controversy are described as sodium iodide thallium activated scintillation crystals. Such crystals are used in connection with nuclear fission equipment utilized in geophysical surveys searching for uranium and oil, in clinical measurement of radio isotopes and in certain aspects of outer space exploration. The crystals have a unique property which permits them to generate a minute particle of light when struck by ionizing radiation.

Harshaw's research into the growth (manufacture) of such crystals commenced in 1949. As a result of improvements in the manufacturing processes over the years Harshaw was able to produce progressively larger crystals until in 1966 it was able to grow a 17 inch crystal, an accomplishment which no other competitor had achieved. Harshaw claims that as a result of its research and discoveries over the years it developed many processes, procedures and manufacturing techniques in the areas of: (1) the purification of raw materials; (2) the growth of the crystals; and (3) the preparation and encapsulation of the crystals, all of which, it claims, are trade secrets, giving it a commercial advantage over its competitors.

Each of the individual defendants is a former employee of Harshaw, having a particular skill in some aspect of

the production of synthetic crystals. As a condition of employment with Harshaw each of the individual defendants executed at least one agreement, and some of them more than one agreement, which required them, as Harshaw employees, to promise not to disclose confidential information or trade secrets obtained as employees of Harshaw. After varying periods of employment by Harshaw and its predecessor, the employments of the individual defendants were terminated, some voluntarily and some involuntarily. Defendants Hamner, Menefee, Spurney and Suscheck formed the defendant Bicron Corporation to compete with Harshaw in the manufacture of sodium iodide thallium activated scintillation crystals. The defendants Richert and Novak later became employees of Bicron. Although Harshaw required more than 16 years to perfect its processes and manufacturing techniques to such an extent that it was able to grow a 17 inch crystal, Bicron and its employees (the defendants here) claimed that Bicron was capable of producing such a crystal in approximately 9 months after the enterprise was started.

On this record, as a whole, it appears clear to us, as it did to the District Court, that the individual defendants used the information obtained during their employment by Harshaw for the benefit of Bicron. There can be no question on this record but what these individual defendants appropriated, to the benefit of Bicron, Harshaw's secrets, processes, procedures and manufacturing techniques.

The jurisdiction of the trial court, not questioned, is based upon the diversity of citizenship of the parties. Title 28 U.S.C. § 1332. Clearly the jurisdictional amount is involved. The Ohio law relating to trade secrets is applicable. *Erie Railroad Co. v. Tompkins,* 304 U.S. 64 (1938).

In essence, the issues presented on this appeal, except one which will be discussed hereafter, deal with the evidence and the extent of the proof offered and required. Each party finds fault with the findings of fact and conclusions of law adopted by the District Judge. The appellees and cross-appellants, Bicron, et al., claim error on the part of the District Court in its refusal to conclude that Kewanee was not entitled to recover because of failure on the part of Harshaw to maintain security, i.e., secrecy, and cites cases which if read out of the context of this lawsuit might give some support to the cross-appellants' claim. *Excelsior Steel Furnace Co. v. Williamson Heater Co.*, 269 F. 614 (6th Cir. 1920); *Healey & Son, Inc. v. Murphy & Son, Inc.*, 260 N.E.2d 723 (Mass. 1970). The record demonstrates that while unnecessary employees were permitted access to certain manufacturing areas wherein alleged trade secrets were used there was nothing in the evidence to show that such access was of sufficient scope as to disclose the nature of the trade secrets to employees who were not required to have knowledge of them by the nature of their employment. In addition the mere showing or writing about certain manufacturing techniques was found by the District Judge to be insufficient to amount to a disclosure to the public of those trade secrets involved in this lawsuit, which were found by the District Court to be trade secrets within the law.

The appellant complains because of the failure of the trial court to find that each of the 40 claimed trade secrets was in fact a trade secret. The trial court found that some of the elements of the devices in question relating to processes or procedures in the production of the crystals would be only ordinary good manufacturing techniques, an example being one relating to "scrap recoveries." (Plf.Exh. 56(1)(i)). A recent article in a popular magazine

demonstrates the accuracy of some of the trial court's conclusions relating to security. In the SATURDAY REVIEW for July 8, 1972, there is a nontechnical description of the nature of synthetic crystals and a description of some of the manufacturing techniques used in the production of such crystals.

This Court has carefully reviewed the Ohio law applicable in the determination of what is and what is not a trade secret and what constitutes misappropriation of such a secret. *W. R. Grace & Co. v. Hargadine*, 392 F.2d 9 (6th Cir. 1968). There is no need for repetition of that review here.

It would be inappropriate for us to discuss the nature of the alleged trade secrets found by the District Judge to be trade secrets within the meaning of the Ohio law and those found not to be trade secrets. Suffice it to say that the District Judge fully considered all of the evidence offered, and that the alleged errors are based upon the appellant's and cross-appellants' disagreement with the trial court's evaluation of the credibility of the witnesses and the weight of the evidence. It is not for this Court to reconsider the credibility of the witnesses or to reweigh the evidence. After careful consideration of the entire record it appears that the findings of fact of the District Judge are not clearly erroneous within the meaning of Rule 52, Federal Rules of Civil Procedure, 28 U.S.C. and the District Judge properly applied the Ohio law relating to trade secrets.

If only the issues already discussed had been presented to this Court we would be required to affirm the judgment of the District Court. However, in addition to the issues already discussed there is a very serious and important issue of a claimed conflict with the provisions of the Con-

stitution of the United States relating to patents, Article I, Section 8 (Clause 8):

> "Section 8. The Congress shall have Power * * *
>
> "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries; * * *."

and the Patent Laws adopted pursuant thereto, Title 35 U.S.C. §§101 et seq., and whether that conflict requires the application of the provisions of the Supremacy Clause of the Constitution, Article VI (Clause 2):

> "This Constitution, and the Laws of the United States which shall be made in Pursuance thereof, and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding."

We must determine whether the trade secrets laws of the State of Ohio are required to be struck down in this case as being in conflict with the United States Patent Laws, and, if so, to what extent. Kewanee urges that the issue presented to this Court requires a determination as to whether the enforcement of any and all state trade secrets laws conflict with the policies of the United States Patent Laws. Thus framed we consider the issue too broad for our consideration in this case.

Our inquiry into the subject should be governed by certain facts which are admitted or obvious from the evidence offered and the concessions of counsel. First, the trade secrets in question relating to the processes, pro-

cedures and manufacturing techniques of Harshaw, as conceded by counsel for Kewanee, were "patentable," that is appropriate subjects for consideration under the provisions of Title 35 U.S.C. § 101.[1] Not only does counsel concede this but it also appears from the evidence that patents have been granted to individuals who have developed processes for producing sodium iodide thallium activated scintillation crystals. (App. I, pgs. 100, 101; App. II, pgs. 1-9). Second, the record demonstrates beyond any doubt that the claimed trade secrets had been in commercial use for more than one year prior to the commencement of this lawsuit. The use of an invention in secret for commercial purposes is considered public use, *Huszar v. Cincinnati Chemical Works,* 172 F.2d 6 (6th Cir. 1949), and under Title 35 U.S.C. § 102(b), a patent may not issue on an invention which has been in public use or on sale more than one year prior to the date of the application for the patent.[2]

Counsel for Kewanee frankly stated in the course of the arguments before this Court that one of the principle purposes of maintaining the secrecy of inventions, including those here involved, as opposed to seeking patents under the Patent Laws would be to extend the commercial monopoly of the invention beyond the 17 years granted by the Patent Laws.

Therefore, the issue presented to this Court in the instant case may be summarized as follows: Whether a

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1. "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

2. 35 U.S.C. § 102. "A person shall be entitled to a patent unless—(6) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States."

state trade secret law which protects an invention which would be an appropriate subject for a patent under the Patent Laws of the United States, and which has been used commercially for more than one year conflicts with the policies and purposes of Article I, Section 8 (Clause 8) of the Constitution and the Patent Laws adopted pursuant thereto.

At the outset of our discussion of this subject we recognize that certain other Courts of Appeals have refused to declare a conflict between the United States Patent Laws, on the one hand, and the Trade Secret Laws of certain states, on the other hand, within the meaning of the Supremacy Clause of the Constitution. *Servo Corp. of America v. General Electric Co.*, 337 F.2d 716 (4th Cir. 1964), *cert. den.* 383 U.S. 934 (1966), *rehearing denied* 384 U.S. 914 (1966); *Dekar Industries, Inc. v. Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), *cert. den.* 402 U.S. 945 (1971); *Water Services, Inc. v. Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969); *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2nd Cir. 1971).

To enable us to reach a proper conclusion as to the issue presented and determine whether in fact the patent laws of the United States preempt the field of law relating to monopolies to be granted to inventors, we think it appropriate to probe the background of history which resulted in the inclusion of the patent provision in the Constitution. Our consideration of this historical background is based upon the work of several authorities.[3]

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3. H. Toulinin, HANDBOOK OF PATENTS (2nd Ed. 1954); E. Burke Inlow, THE PATENT GRANT, John Hopkins University Studies in Historical and Political Science, V.67, No.2, Ch.2 (1950), Johns Hopkins Press, Baltimore; Frank D. Prager, HISTORIC BACKGROUND AND FOUNDATION OF AMERICAN PATENT LAW, 5 Am.J.Legal Hist. (1961); Louis Orenbuch, TRADE SECRETS AND THE PATENT LAWS,

(Continued on following page)

Historians trace the patent privilege at least to the beginning of the 15th Century, but it is clear that the patent protection granted in the early days bore little relationship to the nature of the patent protection contemplated by the Constitution and the Laws of the United States. A patent in its early conception was nothing more or less than a monopoly given to an individual or group of individuals temporarily in favor with the rulers of the country involved. Certainly the granting of the protection of a patent was not for the purpose of preserving to an inventor the right to his invention. Affording to an inventor of an industrial device the protection of the monopoly of a patent may be described as an outgrowth of the Industrial Revolution, and the early limitations provided by the patent statutes of the various industrial countries were as much an attempt to place shackles upon the authority of the Crown as to reward an inventor.

It would appear that there is some basis for a conclusion that the Common Law of England awarded some protection to the inventors of useful devices. Nevertheless, there was no codification of an English patent law until approximately 1787, although the Parliament had earlier placed restrictions upon the Crown's authority to grant patents, and Prager in his work points out (at page 309) that Lord Coke declared an inventors privilege invalid if the monopoly to be protected merely amounted to "a light difference" or "a mere addition" to the then known art.

Footnote continued—

JOURNAL OF THE PATENT OFFICE SOCIETY, Oct. 1970, Vol. 52, No. 10; W. Robinson, THE LAW OF PATENTS FOR USEFUL INVENTIONS (1890). We have also considered some of the material contained in two Law Review articles, "The Limitation on Trade Secret Law Imposed by Federal Patent and Anti-Trust Supremacy", Gordon L. Doerfer, Harvard Law Review, Vol. 80 (1967); "Inventions and the Law of Trade Secrets after Lear v. Adkins," Martin J. Adelman, Robert P. Jaress, Wayne Law Review, Vol. 16 (1969).

It appears that some of the American Colonies granted patents prior to the adoption of the Constitution, but it is suggested that most of these patents or monopolies related to the right to produce salt and similar scarce materials for the purpose of insuring a continuing supply. Monopolies, however, were so unpopular that as early as 1641 the Massachusetts Assembly adopted an Act providing in part:

> "There shall be no monopolies granted or allowed among us, but of such inventions as are profitable to the Country and that for a short time." Massachusetts, COLONIAL LAWS, I, 244, quoted by Inlow, *supra*, pg. 39.

There were, however, some industrial patents granted which in some instances included grants of land. In 1652 the Massachusetts Assembly granted a patent on what was a real invention, probably a stove. In 1656 this grant was extended for the lifetime of the inventor. There were others for a machine designed to cut grass, and in 1643, John Winthrop, the Younger, was granted a patent or monopoly for an iron foundry with land on which to place it. There were other indicia of similar grants in certain of the Northern Colonies, but in the South only South Carolina seems to have granted the exclusive privilege of mechanical patents including patents in 1732, 1733 and 1756, for rice cleaning machines. The patents described, however, were exceptional and certainly could not be considered as a comprehensive system for the protection of inventors.

During the meetings of the Constitutional Convention there were discussions which resulted in the inclusion of the patent and copyright clause of the Constitution about which James Madison wrote in THE FEDERALIST PAPERS:

"The *fourth* class comprises the following miscellaneous powers:

"1. A power 'to promote the progress of science and useful arts by securing, for a limited time, to authors and inventors the exclusive right to their respective writings and discoveries.'

"The utility of this power will scarcely be questioned. The copyright of authors has been solemnly adjudged in Great Britain to be a right of common law. The right to useful inventions seems with equal reason to belong to the inventors. The public good fully coincides in both cases with the claims of individuals. The States cannot separately make effectual provision for either of the cases, and most of them have anticipated the decision of this point by laws passed at the instance of Congress." No. 43: Madison.

Thus, those who framed and adopted the Constitution of the United States recognized that industrial progress would be enhanced by the protection of the rights of inventors to their inventions, provided that there be a limitation upon the monopoly grant resulting from the issuance of a patent. All of this culminated in the adoption of the first patent law, enacted by the Congress in 1790.[4] This statute provided for a 14 year exclusive grant giving "the sole and exclusive right and liberty of making, constructing, using and vending to others to be used" of any original discovery.

Lacking the protection of a patent early inventors utilized secrecy in order to preserve a monopoly and derive profits from the production of new and improved useful devices, and the history of trade secrets is largely a

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4. Annals of Congress, First Congress, Second Session, pg. 2270, 1 Stat.L. 109.

trail of broken pledges, misplaced confidences, losses and disappointments. The courts did not extend to inventors any substantial protection of such trade secrets. As pointed out by Louis Orenbuch, *supra*, "The restrictions were valuable, trade secrets which were successfully retained for long periods of time were relatively rare." He cites two cases to illustrate the protection: *Newbery v. James*, 2 Meriv. 446 (1817), where Lord Eldon considered a bill asking for specific enforcement of an agreement concerning medicines alleged to be a trade secret. The court refused its aid in preserving the unpatented trade secret. Soon after *Newbery v. James* came the case of *Williams v. Williams*, 3 Meriv. 157 (1817), in which a son was alleged to have misappropriated a secret for preparing medicine communicated to him by his father. Lord Eldon, for the Court, again refused to grant protection, and said in part:

> "I do not think that the court ought to struggle to protect this sort of secret, in medicine. The court is bound indeed to protect them in cases of patents, to the full extent of what was intended by the grant of the patent, and because the patentee is a purchaser from the public, and bound to communicate his secret to the public."

However, three years later in 1820, Lord Eldon considered the case of *Yovatt v. Winyeard*, 1 Jc. & W. 394, a suit where an employee had surreptitiously obtained access to the plaintiff's book of recipes, copied them and then started his own medical business. The court granted relief because there "had been a breach of trust and confidence."

Finally, in 1851, the English Chancery Court had before it *Morison v. Moat*, 9 Hare 231, 20 L.J., Ch. 513, which

is considered the leading English case of a legally protectable interest in a trade secret. Vice-Chancellor Turner in *Morison v. Moat* did not consider the purpose of the patent laws, but enjoined the defendant from the use of the secret without enjoining him from divulging the secret although that relief was asked by the plaintiffs.

The law relating to the protection of trade secrets did not begin to develop in this country until the middle of the 19th Century, and then, as might be expected, the decisions protecting such secrets were handed down by the state courts and were based upon contract. A classic example and one of the earliest cases is *Peabody v. Norfolk*, 29 Mass. 452 (1868), in which relief was granted to the plaintiffs enjoining the defendant, a former employee, from utilizing machinery and processes which had been communicated to him as trade secrets.

From this beginning the laws of the states which granted protection to trade secrets involving inventions and industrial processes developed. In *DuPont Powder Co. v. Masland*, 244 U.S. 100 (1917), the Supreme Court of the United States approved protection of a trade secret. Mr. Justice Holmes, speaking for the Court, did not approve a property right in a trade secret, but did approve the enforcement of the confidential relationship existing between the plaintiff and the defendant.

This Court in the recent case of *W. R. Grace & Co. v. Hargadine*, 392 F.2d 9 (6th Cir. 1968), approved protection of trade secrets. Without the numerous citations of cases we suggest that instances of protection of trade secrets by the courts may be found in most of the states of the United States. However, we have been unable to find any case in which there has been a definitive discussion of the possibility of conflict between the Patent Laws of the United States and the trade secret laws of the several

states, within the meaning of the Supremacy Clause, and the issue of preemption of the field of protection of inventions by the Patent Laws of the United States has never been directly and clearly presented to the Supreme Court. However, the language of certain early cases *suggests* that the Supreme Court was of the opinion that the Patent Laws provided the exclusive means and remedies for the protection of inventors, and that no other monopoly was available.

In an early patent case, *Grant v. Raymond,* 6 Pet. 218, 31 U.S. 141 (1832), Mr. Chief Justice Marshall, in discussing the purposes of the Patent Act, had this to say:

> "The great object and intention of the Act is, to assure to the public the advantages to be derived from the discoveries of individuals, and the means it employs are the compensation made to those individuals, for the time and labor devoted to these discoveries, by the exclusive right to make, use and sell those discovered, for a limited time." *Id.* pg. 243.

That this concept of the patent laws continued to be the view of the Supreme Court is emphasized in *Kendall et al. v. Winsor,* 62 U.S. (21 How.) 322 (1958). The situation presented to the court in that case was one in which an inventor had withheld making application for a patent until his invention had been perfected and he had had an opportunity to test its value by experiments. An employee copied the invention and made it available to the defendants who continued to manufacture the machine after the plaintiff had obtained letters patent. Mr. Justice Daniel, in discussing the rights of the parties, pointed out in his opinion:

> "By correct induction from these truths, it follows, that the inventor who designedly, and with the

> view of applying it indefinitely and exclusively for his own profit, withholds his invention from the public, *comes not within the policy or objects of the Constitution* or acts of Congress. He does not promote, and, *if aided in his design,* would impede, the progress of science and the useful arts. And with a very bad grace could he appeal for favor or protection to that society which, if he had not injured, he certainly had neither benefitted or intended to benefit." *Id.* pg. 328. (Emphasis supplied).

And in discussing the following instruction to the jury:

> "1. That if Aldridge, under a pledge of secrecy, obtained knowledge of the plaintiff's machine—and he had not abandoned it to the public—and thereupon, at the instigation of the defendants, and with the knowledge, on their part, of the surreptitiousness of his acts, constructed machines for the defendants, they would not have the right to continue to use the same after the date of the plaintiff's letters patent.

had this to say at page 331:

> "That instruction diminishes or excludes no proper ground upon which the conduct and intent of the plaintiff below, as evinced either by declarations or acts, or by omission to speak or act, and on which also the justice and integrity of the conduct of the defendants were to be examined and determined."

In *Kendall et al. v. Winsor,* 62 U.S. (21 How.) 322 (1858), Mr. Justice Daniel discusses at some length the intention of the Patent Laws, the purposes of the patent laws, the rights of the public as distinguished from the rights of the inventor, and the reasons for inserting into

the patent laws a duty on the part of the inventor to disclose his invention.

Mr. Doerfer in his Law Review article (*supra*, footnote 3) discusses the underlying principles of justification for the patent system and labels it the "exchange for secrets" theory. He points out at page 1441, that in order to promote progress it was not enough that the patent system encourage the development of invention, but it was equally important that inventions not be kept secret. There has been criticism of this theory of the patent law and yet it appears that such is the primary justification for granting a monopoly to an inventor. It thus appears to be well established that the policy of the patent law is to secure protection to the inventor in exchange for the disclosure of the invention at the expiration of the patent. The Supreme Court explained this in *Scott Paper Co. v. Marcalus Manufacturing Co., Inc.*, 326 U.S. 247, 255 (1945), where it was said:

> The enactment of these provisions is the mode by which Congress has chosen to carry into effect the policy sanctioned by the Constitution, Article I, § 8, Cl. 8 "To promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries." The nature and extent of the legal consequences of the expiration of a patent are federal questions, the answers to which are to be derived from the patent laws and the policies which they adopt. Cf. *Sola Electric Co. v. Jefferson Co.*, 317 U. S. 173, 176; *Steele v. L. & N. R. Co.*, 323 U. S. 192, 204, and cases cited. By the patent laws Congress has given to the inventor opportunity to secure the material rewards for his invention for a limited time, on condition that he make full disclosure for the benefit of the public of the man-

> ner of making and using the invention, and that upon the expiration of the patent the public be left free to use the invention. See *Special Equipment Co. v. Coe*, 324 U. S. 370, 378. As has been many times pointed out, *the means adopted by Congress of promoting the progress of science and the arts is the limited grant of the patent monopoly in return for the full disclosure of the patented invention and its dedication to the public on the expiration of the patent.*" (Emphasis added).

The same reasoning is found in *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229, 230 (1964):

> The grant of a patent is the grant of a statutory monopoly; indeed, the grant of patents in England was an explicit exception to the statute of James I prohibiting monopolies. Patents are not given as favors, as was the case of monopolies given by the Tudor monarchs, see *The Case of Monopolies* (*Darcy v. Allein*), 11 Co. Rep. 84 b., 77 Eng. Rep. 1260 (K. B. 1602), but are meant to encourage invention by rewarding the inventor with the right, limited to a term of years fixed by the patent, to exclude others from the use of his invention. During that period of time no one may make, use, or sell the patented product without the patentee's authority. 35 U. S. C. § 271. But in rewarding useful invention, the "rights and welfare of the community must be fairly dealt with and effectually guarded." *Kendall v. Winsor*, 21 How. 322, 329 (1859). To that end the prerequisites to obtaining a patent are strictly observed, and when the patent has issued the limitations on its exercise are equally strictly enforced.

Each of these cases involved a conflict between a state law or rule of law and the Patent Law. In *Scott Paper Co. v. Marcalus Manufacturing Co., Inc.*, 326 U.S. 249 (1945), the question was whether the assignor of a patent was estopped by virtue of his assignment to defend a suit for infringement of the assigned patent on the ground that the allegedly infringed device was that of a prior art expired patent. The Supreme Court held that the doctrine of estoppel, arising out of the contract of assignment, did not apply because such application would be inconsistent with the patent law. In so holding the Court reasoned as follows:

> The aim of the patent laws is not only that members of the public shall be free to manufacture the product or employ the process disclosed by the expired patent, but also that the consuming public at large shall receive the benefits of the unrestricted exploitation, by others, of its disclosures. *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 117-120. If a manufacturer or user could restrict himself, by express contract, or by any action which would give rise to an "estoppel,' from using the invention of an expired patent, he would deprive himself and the consuming public of the advantage to be deprived from his free use of the disclosures. The public has invested in such free use by the grant of a monopoly to the patentee for a limited time. Hence any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws.
>
> • • •

It is thus apparent that the patent laws preclude the patentee of an expired patent and all others including petitioner from recapturing any part of the former patent monopoly; for those laws dedicate to all the public the ideas and inventions embodied in an expired patent. They do not contemplate that anyone by contract or any form of private arrangement may withhold from the public the use of an invention for which the public has paid by its grant of a monopoly and which has been appropriated to the use of all. The rights in the invention are then no longer subject to private barter, sale, or waiver. Cf. *Phillips Co. v. Grand Trunk R. Co.*, 236 U. S. 662; *Midstate Horticultural Co. v. Pennsylvania R. Co.*, 320 U. S. 356, 361; *Brooklyn Bank v. O'Neil*, 324 U. S. 697, 704. It follows that the patent laws preclude the petitioner assignee from invoking the doctrine of estoppel, as a means of continuing as against respondent, his assignor, the benefit of an expired monopoly, and they preclude the assignor from estopping himself from enjoying rights which it is the policy of the patent laws to free from all restriction. *For no more than private contract can estoppel be the means of successfully avoiding the requirements of legislation enacted for the protection of a public interest.* Compare *Pittsburgh, C., C. & St. L. R. Co. v. Fink*, 250 U. S. 577, 583 with *Louisville & Nashville R. Co. v. Mottley*, 219 U. S. 467, 476-477; *New York Central & H. R. R. Co. v. Gray*, 239 U. S. 583, 586-587; *Norman v. B. & O. R. Co.*, 294 U. S. 240, 304-305, 309-310, and cases cited. *The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power.* The patent laws preclude us from saying that the patent assign-

ment, which they authorize, operates to estop the assignor from asserting that which the patent laws prescribe, namely, that the invention of an expired patent is dedicated to the public, of which the assignor is a member." 326 U.S. at 255-257. (Emphasis added).

In *Sears* the issue was whether a state unfair competition law could, consistently with the United States Patent Laws, protect the copying of an article unprotected by a Federal patent or copyright. In concluding that a state could not grant protection of an unpatented device under the unfair competition law of the state because it would conflict with the policy of the United States Patent Laws, the Supreme Court had the following to say:

> *"Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws.*
>
> In the present case the 'pole lamp' sold by Stiffel has been held not to be entitled to the protection of either a mechanical or a design patent. An unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so. What Sears did was to copy Stiffel's design and to sell lamps almost identical to those sold by Stiffel. This it had every right to do under the federal patent laws. That Stiffel originated the pole lamp and made it popular is immaterial. (Emphasis added).
>
> * * *
>
> To allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would

be to permit the State to block off from the public something which federal law has said belongs to the public. The result would be that while federal law grants only 14 or 17 years' protection to genuine inventions, see 35 U. S. C. §§ 154, 173, States could allow perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards. This would be too great an encroachment on the federal patent system to be tolerated.

* * *

But because of the federal patent laws *a State may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article itself or award damages for such copying.* Cf. *G. Ricordi & Co. v. Haendler,* 194 F. 2d 914, 916 (C. A. 2d Cir. 1952). The judgment below did both and in so doing gave Stiffel the equivalent of a patent monopoly on its unpatented lamp. That was error, and Sears is entitled to a judgment in its favor." 376 U.S. 225 (1964) at pgs. 231, 233. (Emphasis added).

And see also: *Compco Corp. v. Day-Brite Lighting, Inc.,* 376 U.S. 234 (1964).

Even more recently in *Lear, Inc. v. Adkins,* 395 U.S. 653 (1969), the Supreme Court in holding that a licensee should not be required to pay royalties while challenging the validity of the patent concluded that requiring such payment would undermine the federal policy favoring full and free use of ideas in the public domain:

"It seems to us that such a requirement would be inconsistent with the aims of federal patent policy. Enforcing this contractual provision would give the licensor an additional economic incentive to devise every conceivable dilatory tactic in an effort to post-

pone the day of final judicial reckoning. We can perceive no reason to encourage dilatory court tactics in this way. Moreover, the cost of prosecuting slow-moving trial proceedings and defending an inevitable appeal might well deter many licensees from attempting to prove patent invalidity in the courts. The deterrent effect would be particularly severe in the many scientific fields in which invention is proceeding at a rapid rate. In these areas, a patent may well become obsolete long before its 17-year term has expired. If a licensee has reason to believe that he will replace a patented idea with a new one in the near future, he will have little incentive to initiate lengthy court proceedings, unless he is freed from liability at least from the time he refuses to pay the contractual royalties. *Lastly, enforcing this contractual provision would undermine the strong federal policy favoring the full and free use of ideas in the public domain.* For all these reasons, we hold that Lear must be permitted to avoid the payment of all royalties accruing after Adkins' 1960 patent issued if Lear can prove patent invalidity." *Id.* at 673-74. (Emphasis added).

The Court said at page 672:

> "At the core of this case, then, is the difficult question whether federal patent policy bars a State from enforcing a contract regulating access to an unpatented secret idea."

The Court gave no answer to this question but did say at page 675:

> "Our decision today will, of course, require the state courts to reconsider the theoretical basis of their decisions enforcing the contractual rights of inventors and it is impossible to predict the extent to which

this re-evaluation may revolutionze the law of any particular State in this regard."

We are now in a position where we find it necessary to answer this question as to that portion of the trade secret laws of the State of Ohio applicable to this case. Of help is the decision of this Court in *Tappan Company v. General Motors Corporation*, 380 F.2d 888 (6th Cir. 1967), where in striking down a claim of unfair competition the Court said at page 892:

> "In the *Sears, Roebuck* and *Compco* cases the Supreme Court held that the patent provisions (Art. I, § 8, cl. 8) and the Supremacy Clause of the Constitution precluded the individual states from granting protection to articles unprotected by the federal patent laws. Those two cases involved design patents which had been held invalid by lower courts, which nevertheless granted relief on the basis of state unfair competition law. The Supreme Court reversed those determinations, reasoning that the force of the Supremacy Clause, as well as the need for uniform standards of protection, required that the federal decision on these matters remain the sole measure of the rights of the competitors.
>
> In the present case the District Court based its judgment on the theory that *Sears, Roebuck* and *Compco* extended even to cases where the patent had not yet been invalidated and still retained its statutory presumption of validity. While we think it would have been better to practice for the District Court to have deferred ruling on this count until after deciding the issues of validity and infringement of the patents, we find no prejudice has resulted to appellant from the Court's premature disposition of this matter.

> The question, as stated in the first sentence of the *Sears, Roebuck* case is whether state law may grant relief to the owner of a design or article which is not *protected* by a federal patent or copyright. For our purposes it is important to point out that a design or article may be deprived of such protection for one of two reasons * * * either it may not qualify for a patent or copyright at all (initially at the Patent Office, or upon later judicial determination) or, as happened here, it may be found that the specific infringement against which relief is sought, does not in fact impinge upon the plaintiff's rights. Thus, in our case, the District Court found that the Fabulous 400 was not entitled to patent protection against the marketing of the Flair line produced by defendants. In this sense, the federal decision that no protection is warranted is the same whether it is based on a finding of patent invalidity, as in *Sears, Roebuck,* or on a finding of noninfringement as in our case.
>
> To allow relief under state law in either situation would run counter to the paramount federal decision of nonprotection. See Columbia Broadcasting System, Inc. v. DeCosta, 377 F.2d 315 (1st Cir. 1967)."

See also *Bendix Corporation v. Balax, Inc.*, 421 F.2d 809 (7th Cir. 1970), *cert. denied* 399 U.S. 911 (1970), and *Massillon-Cleveland-Akron Sign Co. v. Golden State Advertising Co.*, 444 F.2d 425 (9th Cir. 1971).

Thus, we feel compelled to conclude that a state trade secret law which protects an inventor in the maintenance of a monopoly of a device which is an appropriate subject for patent under the United States Patent Laws is in conflict with the policies and purposes of those patent laws

where the invention has been used commercially for more than one year. By such use the inventor has forfeited his right to a patent but by the use of the state trade secret law he is able to exclude competition and prevent disclosure, thus obtaining protection which he could not obtain under the laws of the United States. The state trade secret law has no limitation of time and, therefore, is in direct conflict with the Patent Laws, which have as a purpose the objective of obtaining public disclosure after a limited period of time.

We recognize that our holding in this case is in conflict with the previously cited decisions of other Circuits, *Servo Corp. of America v. General Electric Co.*, 337 F.2d 716 (4th Cir. 1964), *cert. den.* 383 U.S. 934 (1966), rehearing denied 384 U.S. 914 (1966); *Dekar Industries, Inc. v. Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), *cert. den.* 402 U.S. 945 (1971); *Water Services, Inc. v. Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969); *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2nd Cir. 1971), but our analysis of the relationship between the Patent Laws of the United States and the Trade Secret Laws of the State of Ohio, as applied in this case, forces us to the conclusion that the field of protection afforded to this plaintiff by that Trade Secret Law has been preempted by the Patent Laws of the United States. We, therefore, hold that the Trade Secret Laws of the State of Ohio may not afford to the plaintiff in this case protection which the plaintiff could not obtain under the Patent Laws.

The judgment for the plaintiff-appellant is reversed and the case is remanded to the District Court for dismissal of the complaint.

APPENDIX B

Judgment of the Court of Appeals in Case No. 71-1041

(Filed May 10, 1973)

No. 71-1041

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

KEWANEE OIL COMPANY,
Plaintiff-Appellee,

vs.

BICRON CORPORATION, LLOYD H. HAMNER, JULIOUS M. MENEFEE, WILLIAM P. NOVAK, RICHARD W. SPURNEY, HARRY SUSCHECK,
Defendants-Appellants,

Before: PECK, MILLER and KENT, Circuit Judges.

JUDGMENT

APPEAL from the United States District Court for the Northern District of Ohio.

THIS CAUSE came on to be heard on the record from the United States District Court for the Northern District of Ohio and was argued by counsel.

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court that the judgment of the said District Court in this cause be and the same is hereby reversed and the case is remanded for dismissal of the complaint.

It is further ordered that Defendants-Appellants recover from Plaintiff-Appellee, the costs on appeal, as itemized below, and that execution therefor issue out of said District Court.

ENTERED BY ORDER OF THE COURT

/s/ James A. Higgins
Clerk

APPENDIX C

Judgment of the Court of Appeals in Case No. 71-1042

(Filed May 10, 1973)

No. 71-1042

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

KEWANEE OIL COMPANY,
Plaintiff-Appellant,

vs.

BICRON CORPORATION, LLOYD H. HAMNER, JULIOUS M. MENEFEE, WILLIAM P. NOVAK, RICHARD W. SPURNEY, HARRY SUSCHECK,
Defendants-Appellees,

Before: PECK, MILLER and KENT, Circuit Judges.

JUDGMENT

APPEAL from the United States District Court for the Northern District of Ohio.

THIS CAUSE came on to be heard on the record from the United States District Court for the Northern District of Ohio and was argued by counsel.

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court that the judgment of the said District Court in this cause be and the same is hereby reversed and the case is remanded for dismissal of the complaint.

It is further ordered that Defendants-Appellees recover from Plaintiff-Appellant, the costs on appeal, as itemized below, and that execution therefor issue out of said District Court.

ENTERED BY ORDER OF THE COURT

/s/ James A. Higgins
Clerk

APPENDIX D

Restatement of Torts (1939), §757, Comment b

b. *Definition of trade secret.* A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. It differs from other secret information in a business (see § 759) in that it is not simply information as to single or ephemeral events in the conduct of the business, as, for example, the amount or other terms of a secret bid for a contract or the salary of certain employees, or the security investments made or con-

templated, or the date fixed for the announcement of a new policy or for bringing out a new model or the like. A trade secret is a process or device for continuous use in the operation of the business. Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article. It may, however, relate to the sale of goods or to other operations in the business, such as a code for determining discounts, rebates or other concessions in a price list or catalogue, or a list of specialized customers, or a method of bookkeeping or other office management.

Secrecy. The subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret. Matters which are completely disclosed by the goods which one markets cannot be his secret. Substantially, a trade secret is known only in the particular business in which it is used. It is not requisite that only the proprietor of the business know it. He may, without losing his protection, communicate it to employees involved in its use. He may likewise communicate it to others pledged to secrecy. Others may also know of it independently, as, for example, when they have discovered the process or formula by independent invention and are keeping it secret. Nevertheless, a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information. An exact definition of a trade secret is not possible. Some factors to be considered in determining whether given information is one's trade secret are: (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the in-

formation; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Novelty and prior art. A trade secret may be a device or process which is patentable; but it need not be that. It may be a device or process which is clearly anticipated in the prior art or one which is merely a mechanical improvement that a good mechanic can make. Novelty and invention are not requisite for a trade secret as they are for patentability. These requirements are essential to patentability because a patent protects against unlicensed use of the patented device or process even by one who discovers it properly through independent research. The patent monopoly is a reward to the inventor. But such is not the case with a trade secret. Its protection is not based on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another's secret. For this limited protection it is not appropriate to require also the kind of novelty and invention which is a requisite of patentability. The nature of the secret is, however, an important factor in determining the kind of relief that is appropriate against one who is subject to liability under the rule stated in this Section. Thus, if the secret consists of a device or process which is a novel invention, one who acquires the secret wrongfully is ordinarily enjoined from further use of it and is required to account for the profits derived from his past use. If, on the other hand, the secret consists of mechanical improvements that a good mechanic can make without resort to the secret, the wrongdoer's liability may

be limited to damages, and an injunction against future use of the improvements made with the aid of the secret may be inappropriate.

Information not a trade secret. Although given information is not a trade secret, one who receives the information in a confidential relation or discovers it by improper means may be under some duty not to disclose or use that information. Because of the confidential relation or the impropriety of the means of discovery, he may be compelled to go to other sources for the information. As stated in Comment *a*, even the rule stated in this Section rests not upon a view of trade secrets as physical objects of property but rather upon abuse of confidence or impropriety in learning the secret. Such abuse or impropriety may exist also where the information is not a trade secret and may be equally a basis for liability. The rules relating to the liability for duties arising from confidential relationships generally are not within the scope of the Restatement of this Subject. As to the use of improper means to acquire information, see § 759.

APPENDIX E

Opinion of Court of Appeals in Greenwald Case

No. 72-2117

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

UNITED STATES OF AMERICA,
Plaintiff-Appellee,

v.

STEVEN JEFFREY GREENWALD,
Defendant-Appellant.

APPEAL from the United States District Court for the Northern District of Ohio, Eastern Division.

Decided and Filed June 1, 1973.

Before: PHILLIPS, Chief Judge, McCREE, Circuit Judge, and PRATT*, District Judge.

PRATT, Judge. The defendant, Steven Jeffrey Greenwald, was convicted by a jury for a violation of Title 18, United States Code, Section 2314, transporting in interstate commerce "goods, wares, merchandise, securities or money, of the value of $5,000 or more, knowing the same to have been stolen, converted or taken by fraud." The crucial issue presented by this appeal is whether secret chemical formulae, or formulations, fall within the statutory language of "goods, wares or merchandise."

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* Honorable Philip Pratt, United States District Judge for the Eastern District of Michigan, sitting by designation.

The facts are essentially undisputed. Researchers of Pearsall Corporation, defendant's employer, discovered a substitute for antimony oxide, a rare and expensive chemical used in fire retardation processes. The uniqueness of Pearsall's formulations provided an appreciable competitive advantage and it chose not to reveal its discovery but to utilize it in the manufacture of its own products. The number of documents containing the formulations, therefore, was highly restricted but one set was disseminated to the defendant, a chemical engineer employed in the sales department.[1]

The uncontradicted testimony of an officer of Pearsall Corporation and the President of Dover Chemical Company, both experienced and knowledgeable in the workings of the chemical industry, demonstrated that there is an established market, even among competitors, of chemical formulae and formulations. While there is, in addition, a commerce in finished products or components, it is not uncommon, according to that testimony, for chemical manufacturers to exchange formulae and formulations either by outright sale or through licensing agreements. Significantly, these formulae are treated as assets, in the same manner as machinery, equipment or accounts receivable.

It is within this context, then, that the defendant contacted a Pearsall Chemical Corporation competitor in Ohio and negotiated for the transmittal of the formulation documents that had come into his possession. After several telephone calls and a personal meeting in New Jersey, it

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1. The set appropriated by the defendant was in the handwriting of a co-discoverer. Security considerations had prompted Pearsall Chemical Corporation to refrain from typing, printing or otherwise duplicating the original documents.

was agreed that the competitor would pay defendant $40,000 for the documents. On August 21, 1970, by prearrangement, defendant journeyed to Cleveland, Ohio, and he was there apprehended in the course of consummating the sale.

While this definitional issue is one of first impression in this Court, we have no hesitancy in following the short but impressive interpretations adopted by the Third and Second Circuits in *United States v. Seagraves*, 265 F.2d 876 (3rd Cir. 1959); *United States v. Lester*, 282 F.2d 750 (3rd Cir. 1960), *cert. denied* 364 U.S. 937 (1961); *American Cyanamid Company v. Sharff*, 309 F.2d 790 (3rd Cir. 1962); *United States v. Bottone*, 365 F.2d 389 (2d Cir. 1966), *cert. denied*, 385 U.S. 974; *In Re Carol Vericker*, 446 F.2d 244 (2d Cir. 1971).

Seagraves, supra, was concerned with the theft and sale of geophysical maps relating to locations of potential oil deposits. In considering the application of 18 U.S.C. 2314, the Court said:

> "The terms 'goods, wares, merchandise' is a general and comprehensive designation of such personal property or chattels as are ordinarily a subject of commerce. Black's Law Dictionary, 4th ed. 823 (1951); 1 Bouv. Law Dict. Rawle's Third Revision p. 1365 (1914). There was evidence that maps of the type here involved are frequently sold; there was also expert testimony (other than by Gulf people) which placed the value on some of the individual maps alone at well over $5,000. Since the maps were shown without doubt to be subjects of commerce, albeit of a specialized nature, they are goods or wares or merchandise within the terms of the Act."

In a case strikingly similar to the one at bar, the Second Circuit was concerned, in part, with the theft and sale under 18 U.S.C. § 2314 of secret processes used by a drug manufacturer. Judge Friendly, speaking for the Court, stated that there was no doubt that ". . . papers describing manufacturing procedures . . ." are within the ambit of the Act.

So, here, given an established, viable, albeit limited, market in chemical formulations, and the wrongful appropriation of original documents containing such formations, the normal, ordinary and logical import of the statutory language dictates the conclusion that the documents here are "goods, wares or merchandise" within the meaning of the Act.

Other issues raised by defendant are considered to be without merit.

Affirmed.

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SUPREME COURT, U. S.

No. 73-187

IN THE

Supreme Court of the United States

KEWANEE OIL COMPANY,

Petitioner,

v.

BICRON CORPORATION et al.,

Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS SIXTH CIRCUIT

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE

and

BRIEF AMICUS CURIAE OF THE PATENT LAW ASSOCIATION OF CHICAGO SUPPORTING PETITION FOR CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

The Patent Law Association of Chicago
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July 30, 1973

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NO.

IN THE

Supreme Court of the United States

KEWANEE OIL COMPANY,

Petitioner,

v.

BICRON CORPORATION et al.,

Respondents.

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE

THE PATENT LAW ASSOCIATION OF CHICAGO respectfully moves this Court for leave to file the accompanying brief *amicus curiae* in connection with the petition for certiorari in the above entitled case. Consent to the filing of the brief has been refused by Bicron Corporation necessitating the filing of this Motion under Supreme Court Rule 42.

The movant, THE PATENT LAW ASSOCIATION OF CHICAGO, is comprised of some 700 attorneys engaged in the practice of patent, trademark, copyright and unfair competition law. The Association believes that this case raises serious questions of law concerning the viability of trade secret rights. It is believed that changes in the laws concerning such rights will undoubtedly have a serious impact on commerce, both domestic and foreign. It is believed that such changes are contrary to the substantial body of law developed in the jurisprudence of this country, and that material changes in the law should be brought about only after due deliberation and a carefully and fully focused

inquiry. There can be no doubt that such changes might have serious effects on the nation's international relations, both politically and economically. For these reasons the Association feels that this Court should exercise its supervisory authority to review the decision by the Sixth Circuit in the subject case and reexamine its impact on the laws pertaining to trade secret rights, as is more fully set forth in the accompanying brief.

THE PATENT LAW ASSOCIATION OF CHICAGO

By .....
Clyde F. Willian, Counsel

NO.

IN THE

Supreme Court of the United States

KEWANEE OIL COMPANY,

Petitioner,

v.

BICRON CORPORATION et al.,

Respondents.

BRIEF AMICUS CURIAE OF THE PATENT LAW ASSOCIATION OF CHICAGO SUPPORTING PETITION FOR CERTIORARI

I. QUESTIONS PRESENTED

1. Whether this Court should exercise its supervisory jurisdiction to resolve the conflict between the decision of the Sixth Circuit Court of Appeals and the prior decisions both of this Court and various other Circuit Courts regarding the continued viability of trade secrets and state trade secret laws in the United States?

2. Whether state trade secret laws are in conflict with Article I, Section 8 (Clause 8) of the Constitution of the United States, and the Patent Laws of the United States (Title 35, United States Code), so as to be preempted thereby?

II. INTEREST OF AMICUS CURIAE

The Patent Law Association of Chicago was organized and has been in existence since November, 1884. Its active membership comprises some 700 attorneys engaged in the

practice of patent, trademark, copyright and unfair competition law who reside within 100 miles of the United States Courthouse in Chicago. These attorneys represent clients throughout the United States, including those residing and doing business in the judicial districts embodied within the Sixth Circuit. The affairs of the Association are governed by its Board of Managers, which is responsible for this brief. Because of the impact of the Sixth Circuit's decision on both foreign and domestic industrial and intellectual property rights, the Board voted to authorize the filing of this amicus brief.

The conflict presented by the decision of the Sixth Circuit striking down the trade secret law of the State of Ohio (and by implication the trade secret laws of other states within the Sixth Circuit) will make it difficult for organizations utilizing trade secrets in the conduct of their business to make future decisions with any degree of certainty. The conflict here is particularly critical because of the inherent nature of trade secret rights, the disclosure of which, in consequence of the Sixth Circuit Law announced in the *Kewanee* decision, will operate to destroy such rights everywhere. Without clarification from this Court, trade secret rights viable in circuits other than the Sixth Circuit can become void in all circuits.

The Patent Law Association of Chicago believes that it can demonstrate and emphasize areas of importance and conflict with respect to the question of law decided by the Sixth Circuit that might well be beyond the experience of the parties alone.

III. REASONS FOR GRANTING WRIT OF CERTIORARI

The granting of the writ is urged for a number of compelling reasons:

1. The decision is in direct conflict with the law of the other circuits.

2. The decision will have widespread practical ramifications in both domestic and international trade and could materially affect the balance of payments.

3. The decision is in direct conflict with the body of law that has developed and exists with specific recognition by Congress and this Court as to the viability of trade secrets.

1. Conflict With The Circuits

In its decision the Sixth Circuit specifically recognizes the conflict with the other circuits. (Slip Opinion at p. 7; ... F.2d ..., 178 U.S.P.Q. at 12, citing *Servo Corp. of America* v. *General Electric Co.*, 337 F.2d 716 (4th Cir. 1964); *Dekar Industries, Inc.* v. *Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970); *Water Services, Inc.* v. *Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969); *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971).) It would seem that such express recognition is tantamount to an invitation to this Court to grant certiorari to resolve the conflict.

Perhaps the conflict is most clearly focused by comparison with the recent Second Circuit decision in *Painton, supra.* In that case, the Court had to resolve the issues of preemption of state trade secret laws by the federal patent laws, and the matter of federal patent policy. In reversing the district court by rejecting preemption, the Second Circuit held that:

> "We therefore do not find, either in general considerations of public policy or in emanations from the federal patent law, a sufficient basis for declining to enforce even the royalty provisions of trade secret agreements, at least with respect to cases where no patent application has been filed." (442 F.2d at 225)

The practical consequences of this conflict if allowed to stand are far-reaching in scope. Obviously, any public disclosure of a trade secret destroys the secrecy and the prop-

erty right that is premised on that secrecy. Thus, any trade secret holder doing business in the Sixth Circuit will find his trade secret information no longer secure from public disclosure. That, of course, would not only lead to the destruction of the property right in the Sixth Circuit, but in all other circuits as well. The probability of interference with interstate commerce is apparent. Even if the *Kewanee* holding is totally rejected outside the Sixth Circuit, its effect will be felt throughout the nation.

2. Impact on Commerce

The Second Circuit in the *Painton* decision fully recognized that the abrogation of state trade secret laws would have a severe impact on both domestic and foreign commerce. Judge Friendly observed (442 F.2d at 225):

> "In thousands of contracts businessmen have divulged such secrets to competitors, dealing at arms' length and well able to protect themselves, on the faith that mutually acceptable provisions for payment, for the preservation of confidentiality, and for the return of the secret information on termination or default will be enforced by the courts. * * * *The district judge cited no data to prove that licensing of trade secrets had worked adversely to the public interest. To the contrary, such facts as have been brought to our notice indicate that the sharing of technological know-how on the basis of proper agreements has been* [p. 226] *beneficial not only within this country but in its relations with others.*" (Emphasis added.)

In refusing to overturn trade secret laws "save on the clear showing" of inconsistency with other rules of "higher sanction" the Second Circuit took judicial notice that the loss in "foreign dollar payments might run as high as $1 billion annually." (422 F.2d at 226 n. 7). We suggest that amount would prove to be a substantial understatement.

The reasoning in *Painton* is completely consistent with Mr. Justice Harlan's admonition in *Lear* v. *Adkins*, 395 U.S. 653,675 (1969). There the Court refused to "define in even a limited way the extent, if any, to which the states may properly act to enforce the contractual rights of inventors of unpatented secret ideas." *Lear* specifically recognized the "difficulty and importance" of that task and held it should be undertaken only after a "fully focused inquiry" by the state courts to determine the extent to which they will respect the contractual rights of inventors of such unpatented secret ideas.

The Court in the *Kewanee* case was able to point to neither a "clear showing of inconsistency" nor a "fully focused inquiry."

3. Conflict With Congress and This Court

The conflict generated by the *Kewanee* decision is not limited to the decisions of other circuits, but extends to the entire body of law developed from the beginnings of our American jurisprudence. This Court has consistently recognized the common law concept of trade secrets. *Patterson* v. *Kentucky*, 97 U.S. 501 (1878); *Fowle* v. *Park*, 131 U.S. 88 (1889); *Dr. Miles Medical Co.* v. *Park & Sons Co.*, 220 U.S. 373 (1911); *E. I. du Pont de Nemours Powder Co.* v. *Masland*, 244 U.S. 100 (1917).

But of equal importance is the fact that Congress has repeatedly recognized trade secrets, rights, and their coexistence with the patent laws.[1] Since the enactment of the

---

[1] 5 U.S.C. § 552(b)(4) (Supp. IV, 1969); 15 U.S.C. § 78x(a) (1964); 15 U.S.C. § 46(f) (1964); 21 U.S.C. § 331(j) (1964); 50 U.S.C. § 131 (1964); 42 U.S.C. § 263i(e) (Supp. IV, 1969); 21 U.S.C. § 458(a)(5) (Supp. IV, 1969); 42 U.S.C. § 1857d(c)(5) (Supp. IV, 1969) and § 1857 f-6(b) (Supp. IV, 1969); 15 U.S.C. § 1193(c), (Supp. IV, 1969); 33 U.S.C. § 1160(c)(7) (Supp. IV, 1969); 15 U.S.C. § 1401(e) (Supp. IV, 1969).

first patent act in 1790, and its fifteen subsequent revisions before the last revision of 1952, Congress has enacted no less than eleven acts that expressly recognize trade secret rights. Congress has made it a federal crime for a government employee to disclose the trade secrets, 18 U.S.C. § 1905 (1964). It has enacted tax legislation that recognizes trade secrets as property subject to capital gains treatment, 26 U.S.C. §§ 1221-1223 (1964). See *E. I. du Pont de Nemours & Co.* v. *United States*, 288 F.2d 904 (Ct. Cl. 1961) and *Pickren* v. *United States*, 378 F.2d 595 (5th Cir. 1967). It has even empowered the executive branch to acquire, purchase, license or lease trade secrets, 42 U.S.C. § 1857b-1(b)(4) (Supp. IV, 1969); 16 U.S.C. § 778e(e) (Supp. IV, 1969); 30 U.S.C. § 322(b) (1964). Besides the clear expression of Congress concerning the viability of trade secrets, the executive branch of the federal government,[2] together with a host of foreign governments as signatories to existing treaties,[3] recognize both the existence of, and the necessity for, trade secrets.

The magnitude of the problem is reflected by the massive body of state law affected by the *Kewanee* decision. At least nineteen state legislatures have passed laws making it a

---

[2] The procurement regulations of the Department of Defense and the National Aeronautics and Space Agency recognize and provide for the use, acquisition and protection of trade secrets. *Armed Services Procurement Regulations* §§ *9-200 et seq.* and *NASA Procurement Regulations* §§ *9-200 et seq.*

[3] These treaties recognize that a trade secret owner should be compensated for the use or disclosure of his trade secret. See, for example, *Agreements To Facilitate The Interchange Of Patent Rights And Technical Information For Defense Purposes,* Belgium, 5 U.S.T. 2318 (1954); Denmark, 11 U.S.T. 148 (1960); France, 8 U.S.T. 353 (1957); Germany, 7 U.S.T. 45 (1956); Greece, 6 U.S.T. 2173 (1955); Italy, 12 U.S.T. 189 (1960); Japan, 7 U.S.T. 1021 (1956); Netherlands, 6 U.S.T. 2187 (1955); Norway, 6 U.S.T. 799 (1955); United Kingdom, 4 U.S.T. 150 (1953).

crime to misappropriate trade secrets, while the common law of every state recognizes the right of its citizens to own trade secrets. Milgrim, *Trade Secrets* § 1.01[2] and § 1.10 (1968); Sutton, *Trade Secret Legislation,* 9 IDEA 587 (1966).

Moreover, in *Goldstein* v. *California,* — U.S. —, 178 USPQ 129, decided June 18, 1973, this Court considered the doctrine of preemption in connection with the copyright clause, Article I, § 8 (Clause 8), of the Constitution, and interpreted the federal copyright laws of the United States in a manner that is wholly inconsistent with the holding of the Sixth Circuit. This Court found in *Goldstein* that neither Article I, § 8, nor the federal copyright laws (Title 17, United States Code) precluded state legislation in the copyright field. In *Goldstein* the rationale of preemption was rejected. The inconsistency between the *Kewanee* and *Goldstein* decisions is apparent.

CONCLUSION

For these reasons the issuance of a writ of certiorari is urged by The Patent Law Association of Chicago.

Respectfully submitted,

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Counsel to the Association

CERTIFICATE OF SERVICE

I, Clyde F. Willian, a member of the bar of the Supreme Court of the United States, representing The Patent Law Association of Chicago, *amicus curiae,* certify that a copy of the within brief has been served by United States mail on counsel for each of the parties, with adequate air mail postage affixed thereto, addressed as follows:

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Attorneys for Petitioner	Attorneys for Respondents.

Done at Chicago on 30th July, 1973.

.....

Clyde F. Willian

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IN THE

Supreme Court of the United States

OCTOBER TERM 1973

No. 73-187

KEWANEE OIL COMPANY,
Plaintiff-Petitioner,

v.

BICRON CORPORATION ET AL,
Defendants-Respondents.

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE IN SUPPORT OF THE PETITION FOR WRIT OF CERTIORARI

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IN THE

Supreme Court of the United States

OCTOBER TERM 1973

No. 73-187

KEWANEE OIL COMPANY,
Plaintiff-Petitioner,

v.

BICRON CORPORATION ET AL,
Defendants-Respondents.

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE IN SUPPORT OF THE PETITION FOR WRIT OF CERTIORARI

The Licensing Executives Society of the United States moves for leave to file a brief amicus curiae in support of issuance of a Writ of Certiorari. The subject brief accompanies the motion.

The Society has requested consent of the parties to file such a brief. Consent of Petitioner is attached as Appendix A hereto, the original having been filed with the Clerk. Respondent has refused to consent to the filing of a brief by the Society. A copy of the refusal is attached as Appendix B, the original having been filed with the Clerk.

The interest of this amicus is focused as much on the granting of the writ of certiorari as upon the merits; hence the amicus files this motion for leave to support the petition for writ.

1. Nature of the amicus curiae

The Licensing Executives Society is a professional association of persons who are intimately involved in licensing of technology and industrial property rights, including trade secrets and know-how.

The Society in the United States is composed of about 900 members, some members representing large corporations; others representing small companies; some being private practitioners of the law.[1]

Inherent in the work of the Society's members is continuing contact with the financing and generation of new technology, with procedures to protect the technology developed, and with the interrelation between the necessity of protection and the ability to obtain financing.

2. Interest of this amicus

Know-how technology in the United States is a multi-billion dollar asset of U. S. industry. Payments for the licensed portion of that asset run over a billion dollars annually, millions each day.

The decision below conflicts with the law in other circuits and with state case law and statutes, upon which law contracts and business practices worth many millions of dollars have been built by the members of this amicus for their clients and employers.

---

[1] While there are now in addition to the 900 persons referred to above who are U.S. citizens, also foreign chapters and members of the Licensing Executives Society, Inc., reorganization is already in process for final ratification at the October 1973 annual convention, by which the United States members will be formalized into their own nonprofit corporation independent of foreign chapters. This brief is sponsored only by the United States group, acting through the Board on advice of the Committee on Laws.

Since the opinion below endangers a principal stock in trade of the members of this amicus, namely trade secrets, they are intensely interested.

3. The role of the amicus in this case

The opinion below was written

(a) without apparent familiarity with the billion dollar size of the annual business transacted in trade secrets within the scope of the rule announced in the opinion;

(b) without apparent familiarity of the nature of the market for trade secrets (i) in know-how licenses, or (ii) in subcontracts, or (iii) in contracts for R & D;

(c) without apparent familiarity of the need for trade secret protection as an absolutely necessary supplement to patent protection, as a vital part of the overall sponsorship of progress in the useful arts;

(d) without apparent knowledge that the rule of the opinion would cut off a billion dollar order of magnitude of international balance of payments credit which the country sorely needs at a time when the dollar is suffering as it is now on international money markets;

(e) without apparent cognizance that the rule of the opinion below will cut United States industry off from access to perhaps a hundred million a year in purchases of foreign know-how that is important to our industry's capacity to serve our society.

These factors, not mentioned by the Court below, are all what Mr. Justice Frankfurter referred to as "the realities of law in action". This amicus, because of its nature and experience, can provide the realities of trade secret law in action upon billions of dollars in national assets.

Similarly, members of this amicus carry the ongoing responsibility of negotiating and administering millions of dollars of new know-how license contracts annually. When a new law of such fundamental importance is being made, participation by interested amicus curiae is the nearest thing afforded in judicial procedure to obviously desirable public hearings.

The Licensing Executives Society respectfully requests leave to file, as amicus curiae, the accompanying brief urging issuance of a writ of certiorari.

Respectfully,

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June 20, 1973

FILE H409

Mr. Edward P. Troxell
Jones, Day, Cockley & Reavis
1750 Union Commerce Building
Cleveland, Ohio 45115

Re: Kewanee Oil Company v. Bicron Corp. et al

Dear Mr. Troxell:

On behalf of the Licensing Executives Society, I ask leave of Kewanee Oil Company to file a brief amicus curiae in the United States Supreme Court in support of the Kewanee Oil Company petition for writ of certiorari and also on the merits of the case.

If you will consent to the filing of such a brief amicus I will appreciate your so indicating on the enclosed two copies of this letter. Please return them to me for filing in the United States Supreme Court with the briefs on behalf of the Licensing Executives Society, Inc.

Yours truly,

Tom Arnold

Tom Arnold

TA: ef

CONSENT

Kewanee Oil Company, Plaintiff-Petitioner, hereby consents to the filing of an amicus brief by the Licensing Executives Society both in connection with the petition for writ of certiorari and upon any hearing on the merits.

Edward P. Troxell

Counsel for Kewanee Oil Company

APPENDIX B

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July 23, 1973

Tom Arnold, Esq.
Arnold, White & Durkee
2100 Transco Tower
Houston, Texas 77027

Re: Kewanee Oil Company vs. Bicron Corporation et al.

Dear Mr. Arnold:

This confirms our telephone conversations and responds to your June 20 letter.

Bicron will not consent to the filing of an amicus curiae brief by the Licensing Executives Society in connection with the Kewanee petition for certiorari.

As we read Supreme Court Rule 42(1), such briefs are not favored. In the event you file a motion for leave to file such a brief, then Bicron will not oppose it.

Should the Supreme Court grant the petition, we will then deal with the second aspect of your request, which is to file a brief amicus curiae on the merits. Our present inclination is to consent to the filing of any such brief, or at least not oppose it, provided it is filed within the time allowed for the filing of Kewanee's brief so that we can respond to it. We assume your brief will support the position of Kewanee.

Very truly yours,

WCMJR:sam
G-6244

RECEIVED
JUL 24 1973
A. W. & D.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that copies of the foregoing were on this 30th day of July, 1973 mailed by regular airmail to counsel for Petitioner and Respondents as follows: Mr. Edward P. Troxell, Jones, Day, Cockley and Reavis, 1750 Union Commerce Building, Cleveland, Ohio, 44115; Mr. Roger Milgrim, Milgrim, Tomajan and Jacobs, 25 Broadway, New York, New York, 10004; Mr. William C. McCoy Jr.. Bosworth, Sessions & McCoy, 625 National City Bank Bldg., Cleveland, Ohio, 44114.

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IN THE

Supreme Court of the United States

OCTOBER TERM 1973

No. 73-187

KEWANEE OIL COMPANY,
Plaintiff-Petitioner,

v.

BICRON CORPORATION ET AL,
Defendants-Respondents.

BRIEF AMICUS CURIAE BY THE LICENSING EXECUTIVES SOCIETY IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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In The

Supreme Court of the United States

October Term 1973

No. 73-187

Kewanee Oil Company,
Plaintiff-Petitioner,

v.

Bicron Corporation et al,
Defendants-Respondents.

BRIEF AMICUS CURIAE BY THE LICENSING EXECUTIVES SOCIETY IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

I.

NATURE AND INTEREST OF THE AMICUS CURIAE

The Licensing Executives Society is a professional association of persons who are intimately involved in licensing of technology and industrial property rights, including trade secrets and know-how.

The Society in the United States is composed of over 900 members, some members representing large corporations; others representing small companies; some being private practitioners of the law.[1]

[1] While there are now in addition to the 900 persons referred to above who are U.S. citizens, also foreign chapters and members of the Licensing Executives Society, Inc., reorganization is already in process for final ratification at the October 1973 annual convention, by which the United States members will be formalized into their own nonprofit corporation independent of foreign chapters. This brief is sponsored only by the United States group, acting through the Board on advice of the Committee on Laws.

Inherent in the work of the Society's members is continuing contact with the financing and generation of new technology, with procedures to protect the technology developed, and with the interrelation between the necessity of protection and the ability to obtain financing.

The members of this amicus are persons who buy, sell and direct the protection of billions of dollars worth of technology[2] which is endangered by the decision below. These members negotiate the licenses under which over a billion dollars are paid annually, under which millions are paid each day.

The decision below, conflicting not only with other circuits, but with decisions in most states and announcements by the Supreme Court, purports to destroy in large measure the assets and licenses which the members of this amicus handle on a continuing basis.

II.

ARGUMENT: REASONS WHY A WRIT OF CERTIORARI SHOULD BE GRANTED

(1) The Conflict Among Circuits Is One Of Important Substance

The decision below announces for the Sixth Circuit a new rule in conflict with two treaties,[3] many state statutes,[4]

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[2] See discussion in Appendix A at end of brief.

[3] Article 10 bis of the Paris Convention Act of Lisbon, 1958, 13 U.S.T. 1 provides: "(1) The countries of the Union are bound to assure to persons entitled to the benefit of the Union effective protection against unfair competition. (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition." Article 20 of the Pan American Convention of 1929, 46 Stat. 2907, provides: "Every act or deed contrary to commercial good faith or to the normal and honorable development of industrial or business activities shall be considered as unfair competition and, therefore, unjust and prohibited."

[4] See Appendix B at the end of this brief.

case law in most states,[5] and prior announcements of this court.[6] In addition, the court below acknowledged the rule to be in conflict with the law in other circuits.[7]

The new rule is that the patent laws of the United States precludes by preemption enforcement of the trade secret law of the State of Ohio, insofar as the trade secret law would protect technology within patent classes of subject matter (35 U.S.C. § 101) which has been in use for more than one year (35 U.S.C. § 102(b)).

This rule strikes at the heart of tens of thousands of contracts for license or transfer of trade secrets, subcontracts for the manufacture of subassemblies or parts of larger machines, employment contracts, contracts for research and development, etc.

Most trade secrets involve technology which is largely in the unpatented form of confidential information which has been in commercial use for more than one year. The technology is ordinarily the product of large investment in research and development and of many years of practical

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[5] The opinion below acknowledges case law supportive of trade secrets in "most of the states" without citation. *Kewanee Oil Co.* v. *Bicron Corp.*, ___F.2d___, 178 U.S.P.Q. 3, 8 (6th Cir. 1973).

[6] The Court has written a number of times supportive of trade secrets, including statements to the effect that trade secrets are "independent of the patent law", *Becher* v. *Countoure Laboratories, Inc.*, 279 U.S. 388, 391, 49 S. Ct. 356, (1929); and that an inventor "may keep his invention secret and reap its fruits indefinitely," *U.S.* v. *Dubilier Condenser Corp.*, 289 U.S. 178, 186, 53 S. Ct. 554 (1933)

Never, *in any case where trade secret law and industry practice was briefed to the Court*, has this Court ever intimated the possibility of patent law preemption of trade secret law.

[7] *Servo Corp. of America* v. *General Electric Co.*, 337 F.2d 716 (4th Cir. 1964), *cert. den.* 383 U.S. 934 (1966), *rehearing denied* 384 U.S. 914 (1966); *Dekar Industries, Inc.* v. *Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), *cert. den.* 402 U.S. 945 (1971); *Water Services, Inc.* v. *Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969); *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216 (2nd Cir. 1971).

knowledge and experience in the trade. It constitutes a "commodity" which can be bought, sold and traded.

Speaking in terms of rough orders of magnitude, United States business:

(1) pays annually over one hundred million dollars for licenses of foreign technology;

(2) receives annually over a billion dollars for licenses of U.S. technology to foreigners; and

(3) pays and receives many billions each year for licenses of technology, both domestic and foreign.[8]

These dollars, and these tens of thousands of contacts, are severely impacted by the rule announced below.

(2) The Conflict Among Circuits Will Create Forum Shopping And Resultant Judicial Inefficiency

Litigation costs and judicial inefficiency abound in contests over where a lawsuit is to be tried, and commercial litigation is particularly susceptible to such contests because of the liberality of the venue statutes in bringing suit against corporations.

Because of the rule below, millions of dollars in accruing royalty payments under trade secret licenses are now due or not due, depending on which party to the contract brings suit first and which party can keep the suit in the forum he selected.

Such a situation is patently intolerable.

(3) The Rule Announced Below Favors Dishonor And Disloyalty

All will recall the memory-expert spy of the World War II movies who got jobs in U.S. plants, memorized data, and

[8] See discussion in Appendix A.

disclosed it to the enemy. The rule announced below condones, even sponsors, a similar practice of spying on competitors.

The rule announced below inevitably condones the taking by indirection (by employment of another's employees) of the same technology that would be called theft if taken by the direction of stealing documents with the secret processes written thereon.

Such unfair practices unfortunately have become so prevalent that 21 states, since the *Sears*[9] and *Compco*[10] decisions by this Court in 1964, have enacted criminal statutes to prevent theft of trade secrets.[11] The rule below, however, has placed these statutes in jeopardy.

There has to be public policy favoring the concepts that a business not reap where it did not sow, that an employee be loyal to the business which entrusted him with its confidential information, and that trusts and confidences be observed.

(4) The Conflict Among Circuits Frustrates The Conduct Of Contract Negotiations

Members of this amicus work at negotiations for license of new technology on a continuing daily basis. Anyone of these licenses may be worth millions.[12]

Business in values of such magnitude cannot be suspended over night, but the conflict among circuits is devastating to responsible conduct of this business. Businesses cannot

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[9] *Sears Roebuck & Co.* v. *Stiffel Company*, 376 U.S. 225 (1964).
[10] *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).
[11] Appendix B includes citations to these statutes.
[12] See, for example, *Imperial Chemical Industries, Ltd.* v. *National Distillers and Chem. Corp.*, 342 F.2d 737, 744 (2nd Cir. 1965), where Toyo of Japan had agreed to pay about $6,000,000 for information on how to build a polyethylene reactor. A frequent price for chemical process licenses in the last ten years has been in the million dollar order of magnitude.

freely license their technology if a court is likely to invalidate the license on the rule of law announced below.

(5) The Conflict Among Circuits Frustrates The Planning And Budgeting Of Research And Development Programs

Private business expends millions each year for research and development of new technology. Many of the developments of these programs are commercially valuable, but at the same time are not sufficiently broad in scope of application to warrant the expense of patent protection. The established law of trade secrets has been consistently relied on for protection of this technological information and the investment it represents.

The conflict below creates such uncertainty that business cannot responsibly plan to invest millions in research and development programs, the results of which are not protectable in the Sixth Circuit.

(7) The Conflict Among Circuits Disrupts One Of Foreign Technology By U.S. Industry

Heretofore, United States industry has bought, by way of licenses and other contracts, technology from foreign companies, the value of which approximates one hundred million dollars per year.[13] This input of technology to U.S. companies each year has been used by United States companies in providing goods and services to our citizens.

The rule of law announced below renders the purchases of trade secret technology from abroad not feasible, for a foreign business will not be inclined to reveal its trade secrets to U.S. licensees if the payments for such trade secrets are unenforceable.

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[13] See discussion in Appendix A.

Similarly, foreign business will be reluctant to license its trade secrets if the U.S. licensee is not bound to keep the technology secret from competitors of the foreign business. Under the rule below, an unlicensed competitor could gain the technology simply by hiring one of the U.S. licensee's employees, at a suitable bonus.

If the rule announced below is allowed to stand, foreign business would be foolish to license trade secret technology to U.S. business.

(7) The Conflict Among The Circuits Disrupts One Billion Annually In U.S. Balance Of Payments Credit

The entire economy of our nation has been buffeted in recent years by the deficit in international balance of payments. As pointed out before, licensing of technology by U.S. business to foreign purchasers exceeds one billion dollars annually. This technology in large measure involves unpatented, but proprietary information.

Under the rule below, a prospective foreign purchaser of technology can hire a few key employees of a U.S. business for a short time, at a suitable price, and avoid fair payment for the technology.

The rule announced below would sacrifice probably over a billion a year in international balance of payments credits which this nation's economic posture can ill afford to lose.

CONCLUSION

The conflict of law among the circuits is devastating to an important activity of U.S. business.

Issuance of a writ of certiorari to resolve the uncertainty arising out of the conflict is respectfully urged.

Respectfully submitted,

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APPENDIX A

Dollar Significance Of Technology Within The Rule Below

Payments for trade secret know-how are commonly intermixed with payments for other values ranging from patent licenses to training of the licensee's personnel. In addition, know-how is very often sold for speculative values in equity participation, rather than for royalties or dollar payments. Such transactions of course do not ordinarily appear in economic data.

Accordingly, it is impossible to gather precise figures on the dollar volume of know-how conveyances by United States industry. But the billion-dollar-plus order of magnitude is reliably available from a number of sources, such as Department of Commerce studies of sources of international balance of payment credits, etc.

The 1961 figures from *Technological Innovation: Its Environment and Management*, A Report of the Panel on Invention and Innovation, U.S. Department of Commerce, 1967, are of interest though the figures are now some 12 years old. There we find:

> "An important element of our international balance of payments is what is called the 'technological' balance of payments. This international account reflects payments for technical know-how, patent royalties and the like. In a recent study of the technological balance of payments of various countries, the 'Organization for Economic Cooperation and Development' (OECD) published data for the United States which are depicted in Chart 5. The OECD compilation shows the U.S. receiving roughly ten times the technological payments from abroad as goes out in payments to other nations. This is a very significant secondary effect of innovation in the American economy."

The Chart 5 shows 1961 payments to other countries, $63,000,000; receipts by U.S. from others in 1961, $577,000,000; net balance to U.S. in 1961 of $514,000,000. These figures of course do not count domestic know-how licensing.

The National Industrial Conference Board, Inc., 845 Third Ave., New York, New York 10022, in its 1969 research report *Appraising Foreign Licensing Performance, Studies In Business Policy, No. 128*, cited published and unpublished data from the U.S. Department of Commerce, and stated that "receipts of royalties and license fees from abroad have more than doubled over the course of the last ten years, rising from around $378 million in 1957 to an estimated $786 million in 1967."

In *Survey of Current Business*, U.S. Dept. of Commerce, Vol. 51, No. 3, March 1971, the income to the United States in 1970 for fees and royalties from international arrangements is stated to be $1,538,000,000.

The exact amount of these fees and royalties which are properly allocable to know-how rather than patents or other sources is unknown, but many persons who work in technology licensing believe that the license value of unpatented technology is as significant as the license value of patented inventions.

A study of the relative importance of income from patent licensing and from know-how licensing is described in *Comparative Income Roles of U.S. Industrial Property Rights Licensed Abroad*, 14 IDEA 352, Fall 1970. This study is informative, but it does not provide precise answers.

After review of the above figures, extrapolation to 1973, and subtraction for direct patent licenses which may be included, one comes to the conclusion that an order of magnitude approaching a billion dollars for income to the

United States under *international* licenses of unpatentable trade secrets is a plausible figure. At the same time, one can reasonably conclude, based on the above 1961 data, that value approaching one hundred million is being paid to foreign business in exchange for know-how licenses.

After addition of an unknown value of domestic trade secret licenses (no meaningful figures are known), one must surely conclude that multiple billions are involved annually in the licensing of U.S. owned trade secrets.

If one capitalizes the annual income to an asset value, the present asset value of U.S. trade secret know-how, which is within the rule below, is in the order of magnitude of several billions of dollars, since very little, if any, technology is licensed for such high figures unless placed in use and usable for much longer than a year.

APPENDIX B

State statutes, since *Sears* and *Compco* in 1964, which render theft of trade secrets a crime

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Tenn. Code Ann. §§ 21-4238 to 21-4240 (1967)
Wis. Stat. Ann. § 943.205 (1965)

CERTIFICATE OF SERVICE

The undersigned hereby certifies that copies of the foregoing were on this 30TH day of JULY, 1973 mailed by regular airmail to counsel for Petitioner and Respondents as follows: Mr. Edward P. Troxell, Jones, Day, Cockley and Reavis, 1750 Union Commerce Building, Cleveland, Ohio 44115, Mr. Roger Milgrim, Milgrim, Tomajan and Jacobs, 25 Broadway, New York, New York 10004; Mr. William C. McCoy Jr., Bosworth, Sessions & McCoy, 625 National City Bank Building, Cleveland, Ohio 44114.

AUG 1 1973 SUPREME COURT, U. S.

IN THE

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OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY, *Petitioner*,

v.

BICRON CORPORATION, ET AL., *Respondents*.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

MOTION OF MANUFACTURING CHEMISTS ASSOCIATION FOR LEAVE TO FILE BRIEF AMICUS CURIAE AND BRIEF FOR AMICUS CURIAE MANUFACTURING CHEMISTS ASSOCIATION

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MOTION OF MANUFACTURING CHEMISTS ASSOCIATION FOR LEAVE TO FILE BRIEF AMICUS CURIAE

Manufacturing Chemists Association ("MCA") hereby respectfully moves for leave to file a brief herein as *amicus curiae* in support of Petitioner's petition for certiorari. A copy of the brief it would file, if this motion is granted, is submitted herewith.

Counsel for Petitioner, Kewanee Oil Company, has consented to MCA's participation herein as *amicus curiae.*

The consent of counsel for Respondents has been requested, but refused.

MCA is a non-profit trade association of 171 companies, large and small, engaged in manufacturing industrial chemicals and allied products. MCA member companies represent more than 90 percent of the production capacity for basic industrial chemicals in this country. Total shipments of chemicals and allied products in 1972 were valued at more than $57,000,000,000.

The opinion of the Sixth Circuit at issue in this case holds that the Federal patent law (and the provision of the Constitution on which that law is based) preempt Ohio's trade secret law, and thus preclude a court from preventing the wrongful appropriation and use of secret discoveries which are "patentable" but which have not been patented.[1]

MCA has a vital interest in this case because chemical companies, many of which are located in the Sixth Circuit, rely heavily on the protection afforded their technological secrets by trade secret laws, and because the opinion of the Sixth Circuit, if not reversed, would destroy the value of that secret information. MCA members estimate that current technological secrets in their hands are valued at billions of dollars.

MCA seeks leave to file a brief *amicus curiae* in support of the petition for certiorari in order to bring before this Court the effect the opinion of the Sixth Circuit would have on the entire chemical industry, to stress the importance to the chemical industry that the opinion be reviewed by

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[1] The opinion of the Sixth Circuit applies to all discoveries of a patentable subject matter (*i.e.*, of a technological nature) even if they do not satisfy the criteria, such as nonobviousness, for the grant of a patent.

this Court, and to urge reasons why the petition for a writ of certiorari herein should be granted.

Respectfully submitted,

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BRIEF FOR AMICUS CURIAE MANUFACTURING CHEMISTS ASSOCIATION

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---

BRIEF FOR AMICUS CURIAE MANUFACTURING CHEMISTS ASSOCIATION

INTRODUCTION

Manufacturing Chemists Association ("MCA"), as an *amicus curiae* herein, strongly supports the petition for a writ of certiorari filed herein by Kewanee Oil Company, and urges this Court to grant that petition in order to resolve the major Constitutional issue posed by the opinion of the Court of Appeals for the Sixth Circuit, holding that

the Federal Constitution and the Federal patent law preempt Ohio's trade secret law. This decision is erroneous, and is in direct conflict with the rulings of the Courts of Appeals of four other Circuits.[1]

INTEREST OF MCA

MCA is a non-profit trade association of 171 companies, large and small, engaged in manufacturing industrial chemicals and allied products. MCA member companies represent more than 90 percent of the production capacity for basic industrial chemicals in this country. Total shipments of chemicals and allied products in 1972 were valued at more than $57,000,000,000.

The opinion of the Sixth Circuit (where many MCA member companies are located) would have a particularly drastic effect on chemical companies. Technology is their very business. Their profits are derived from advancing technology. In allocating large amounts of funds to technological research and innovation, chemical companies rely heavily on the sanctity of trade secrets. If the opinion of the Sixth Circuit is not reversed, it would seriously impair the value of existing technological secrets in the chemical industry—estimated by MCA's members to be worth billions of dollars—and would have a major adverse effect on the conduct of research in the future.

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[1] Because four other Circuits have held that State trade secret laws are not so preempted, if this Court should not grant the writ the short-term consequence of the Sixth Circuit's opinion would be to remove from companies to whom its decision applies the protection of trade secret laws, while their competitors which are subject to the law of other Circuits would have the benefit of trade secret laws. As discussed below, the resulting confusion and uncertainty are themselves reasons the writ should be granted. However, to demonstrate the critical importance of the question raised in this Court, MCA has in the pages that follow indicated the serious effect the opinion of the Sixth Circuit would have if it were adopted generally.

QUESTIONS PRESENTED

1. Whether, in view of the authority granted Congress by Art. I, § 8, cl. 8 of the Constitution to issue patents,[2] a State has been deprived of the power to protect unpatented secret technological information from being wrongfully appropriated to another's use.

2. Whether the Federal patent law, 35 U.S.C. § 100 *et seq.*, preempts a State trade secret law, thus prohibiting a court under the Supremacy Clause of the Constitution from applying that law to enjoin the disclosure or use of secret information which is obtained by improper means and which relates to a "patentable" but unpatented discovery.

3. Whether, even if the State's trade secret law is preempted by the Federal patent law and is unenforceable, a court is precluded from enforcing a separate and distinct contractual obligation not to disclose or use secret technological information.

REASONS THE WRIT SHOULD BE GRANTED

1. The opinion of the Court of Appeals for the Sixth Circuit poses a major Constitutional question—whether application of Ohio's trade secret law to "patentable"[3] but unpatented discoveries imposes such an obstacle to the operation of the Federal patent law as to invoke the Supremacy Clause of the Constitution.

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[2] "Section 8. The Congress shall have Power . . . .

"To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries; . . ."

[3] As described below, the opinion of the Sixth Circuit applies to all discoveries of patentable subject matter under 35 U.S.C. § 101 (*i.e.*, of a technological nature) even if they do not satisfy the criteria, such as nonobviousness, for the grant of a patent.

2. This Constitutional question is not limited to the validity of the law of Ohio, but is raised by the similar trade secret laws of the other States. The question is, therefore, critically important to American business, particularly to the chemical industry. If not reversed, the opinion of the Sixth Circuit, wherever adopted, would totally nullify the protection which State laws afford secret technological information, and permit worldwide publication of secret technological information obtained by wrongful means. American industry has relied on this protection since the Constitution was adopted (and even before that time), and currently is relying on it in making major investment and other business decisions which directly affect vital concerns of the United States— the future course of its technology, its competitive position in the world, its balance of payments, and, in sum, the continued health of the American economy.

3. The decision of the Sixth Circuit and the reasoning behind it are — as that court itself expressly acknowledged — in direct conflict with the opinions entered by the Courts of Appeals for the Second, Fourth, Fifth and Ninth Circuits. Thus, those companies to which the Sixth Circuit opinon would apply would lose the benefit of trade secret protection, while their competitors which are subject to the law of other Circuits would have the benefit of such laws. Indeed, the latter companies could be free to appropriate the trade secrets of companies to which the Sixth Circuit's decision applies, while being immune from reciprocal action. In such circumstances, forum shopping would appear advantageous and would be encouraged. Because of the importance of the issue presented, the confusion which would be generated, and the inequity among competitors, this Court should resolve the conflict among the Circuits.

4. The result reached by the Sixth Circuit violates the precepts adopted by this Court, particularly those in its very recent opinion of *Goldstein* v. *California,* 41 U.S.L.W. 4829 (U.S. June 18, 1973).

ARGUMENT

A. TECHNOLOGICAL TRADE SECRETS WOULD BE IMMEDIATELY JEOPARDIZED BY THE SIXTH CIRCUIT'S OPINION.

Ohio's trade secret law provides that no person (a) "shall with intent to deprive or withhold from the owner thereof the control of a trade secret . . . obtain possession of . . . a trade secret" or (b) "having obtained possession of an article representing a trade secret or access thereto with the owner's consent, shall convert such article to his own use or that of another person . . . ."[4] Penalties are prescribed for violations of these provisions.[5] Injunctions may also be obtained; and, in particular, an employer may obtain an injunction to bar a former employee and his new employer (like Respondents in the instant case) from disclosing or using trade secrets secured by the departed employee in confidence during the course of his employment.[6]

The opinion of the Sixth Circuit holds that Ohio's trade secret law—and thus, if this opinion should be generally adopted, that of the other jurisdictions having similar laws —cannot be invoked to protect the secrecy of an invention which is "patentable" under the Federal patent law, but for which no patent application has been filed.[7]

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[4] 13 Ohio Rev. Code Ann. § 1333.51 (Supp. 1972). See also *W. R. Grace & Co.* v. *Hargadine*, 392 F.2d 9 (6th Cir. 1968) and authorities cited therein.

[5] 13 Ohio Rev. Code Ann. § 1333.99(E) (Supp. 1972).

[6] *Curry* v. *Marquart*, 133 Ohio St. 77, 79, 11 N.E.2d 868, 869 (1937).

[7] The opinion is purportedly "limited" to patentable trade secrets which have been in "public use" for a year or more and thus, under the terms of 35 U.S.C. § 102(b), cannot be awarded a patent. But this is not a limiting factor. Although there may be many reasons why a discovery is not patented, after a year of commercial use every trade secret which might otherwise be

It is apparent from the opinion, as well as from the briefs presented to the Sixth Circuit by the Bicron parties (Respondents herein), that by "patentable" the court intended to encompass all discoveries relating to the types of subject matter with which the patent law is concerned, even though, in actuality, they might not be eligible for the grant of a patent under the specific criteria of that law. In other words, the effect of its ruling is not limited to those particular inventions which, if pursued in the Patent Office, would result in the actual grant of a patent. As the court stated, its decision applies to inventions which are "appropriate *subjects for consideration* under the provisions of Title 35 U.S.C. § 101,"[8] which provides that a patent may be obtained, "subject to the conditions and requirements" of other sections, on "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof . . . ."

Because the opinion thus applies to anything and everything falling within the "subject matter" jurisdiction of the patent laws, it would, if not reversed, apply to every advance in technology and thus, in effect, destroy the value of all secret technological information.[9] It would, for instance, apply to every minor refinement in the design of a

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eligible will be ineligible for a patent on this ground. Moreover, the bar of § 102(b) is inapplicable to trade secrets which would not qualify for a patent, even if not in commercial use for a year; the Sixth Circuit's opinion is also applicable to such trade secrets, as discussed in text. Therefore, although it invoked the bar of § 102(b), the Sixth Circuit's opinion would destroy every technological trade secret except the very limited category of those which have not been in commercial use for a year, and only until that year has expired.

[8] Appendix to Petition for Writ of Certiorari, p. A7 (emphasis added).

[9] The decision, of course, does not apply to non-technological secrets, such as customer and supplier lists, marketing projections, and advertising strategies.

machine and to every small improvement in a manufacturing process, commonly referred to as "know-how"—which, although new, useful, and valuable, are not eligible for a patent because they are, in terms of the patent law, "obvious." In the chemical industry, where multistep processes and procedures are common, the judicious combination of "obvious" modifications in individual steps often entails the expenditure of considerable amounts of time and money and confers significant technical and economic advantages —and yet may not satisfy the technical requirements for a patent.

As a result of the instant opinion, employees who had learned secrets by virtue of their employment in a fiduciary capacity with the firm which had financed the discovery of the secrets would be free to leave that firm, taking its secrets with them, and to utilize that confidential information in competition against their former employer (as did the Respondent employees in the present case). Such use and disclosure would not be limited to the United States, and would result in the unjust enrichment of foreign competitors at the expense of American industry.

The decision would also reward the diverse other forms of improper conduct to which trade secret laws apply. For instance, the rationale of the opinion of the Sixth Circuit would prevent the application of the trade secret law to prohibit the use and disclosure of "patentable" but unpatented secrets obtained even by theft, and thieves would be free to use and disclose the fruits of their crimes. Indeed, if the opinion were to stand, one who steals trade secrets might also be free from punishment under the criminal laws.

It is apparent from the broad scope of technological information to which the Sixth Circuit's opinion would apply and from the wide range of improper conduct it would foster that, if it is not reversed, its effect would be devastating. If applied broadly, it could directly destroy the

value of billions of dollars of technological secrets, since they would immediately become subject to misappropriation with impunity. Its inevitable result would be the technological rape of the chemical and other vitally important segments of American industry.

An even more basic consequence of this destruction of trade secrets would be a reduction in the amount of research conducted in those areas of patentable subject matter where, although important advances are contemplated, the firm does not believe the results will qualify for a patent. A firm is not likely to spend millions of dollars to develop know-how—and the variety of minor improvements of that know-how which make it continuingly current and valuable—if the law will permit another person or company to pirate it. As a result, research efforts would be almost certainly reduced or at least focused primarily on areas which management believed would yield inventions that could be protected with patents.

The fact that an invention may satisfy the criteria for the grant of a patent does not necessarily mean that it is more valuable, or even more ingenious, than if a patent may not be granted. Thus, under the instant decision, the allocation of resources for research and development would be determined not by the requirements of technology and the discipline of economics, but by the arbitrary diktats of inflexible law.

The destruction of trade secret protection would place American companies at a severe disadvantage in relation to their competitors abroad, who would have free access to all technological secrets of American firms while maintaining the secrecy of their own. These foreign firms would also retain the incentive to continue investing in research in these areas, whereas the incentive of American companies to keep abreast would be reduced.

In brief, the decision of the Sixth Circuit, if not reversed, would result in the creation of an unprecedented rule of

law which would reward improper conduct, destroy secrets worth billions of dollars, curtail the development of technology, and damage the American economy. The decision should not be permitted to stand, and certainly should not be permitted to stand unreviewed by this Court.

B. THE OPINION OF THE SIXTH CIRCUIT IS ERRONEOUS AS A MATTER OF LAW.

There are two major lines of inquiry which must be pursued to determine if a State trade secret law is valid and can be given effect: (a) Does the State retain the authority to act on the subject matter, or is the matter exclusively within the jurisdiction of the United States? (b) If the State does have authority to act, would enforcement of its law pose an irreconcilable conflict with the operation of any Federal legislation in the field?

Article I, § 8, cl. 8, of the Constitution grants Congress the power "to promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries." It is axiomatic, of course—and the Constitution expressly so provides—that powers not vested in the Federal Government are reserved to the States. While Ohio could not enact a law granting inventors the exclusive right to their discoveries, as the Federal patent law does, this is not what it has done. Instead, it has adopted a trade secret law which prevents the use of secret information improperly obtained, but grants no exclusive right whatsoever. The Ohio law, in common with trade secret laws of other States, does not purport to, nor does it, preclude independent development and use of such information by others.

The issues presented by the Sixth Circuit's opinion are whether the State's exercise of its reserved power by promulgation of a trade secret law, or the application of standard contract law to enforce a private agreement to maintain secrecy, poses irreconcilable conflicts with the patent

law adopted by Congress pursuant to Art. I, § 8, cl. 8. MCA submits, for the reasons discussed below, that if this Court grants review, it would determine that State trade secret laws do not conflict with and are not preempted by the Federal patent law or the policies of Art. I, § 8, cl. 8, and that *a fortiori* a court is not barred from enforcing a private contract.[10]

1. Trade Secret Laws Do Not Conflict With the Patent Law.

A State law does not violate the Supremacy Clause of the Constitution, and is not preempted by a Federal statute, unless it is an obstacle to fulfilling the purposes and objectives of Congress. Preemption lies only if the nature of the regulated subject permits no other conclusion, or if Congress has unmistakably so ordained. *Florida Lime & Avocado Growers, Inc.* v. *Paul*, 373 U.S. 132 (1963); *Goldstein* v. *California, supra.* As shown below, Congress has expressed no intent that the patent law preempt State trade secret laws; nor does the enforcement of such laws conflict with the operation of the patent law.

The fact that the Congress has not intended the patent law to preempt State trade secret laws is evidenced by the numerous instances in which by legislation Congress has expressly recognized the existence of trade secrets and the importance of protecting them.[11] Perhaps most probative

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[10] Because the Sixth Circuit opinion did not discuss the question of enforcing the contract to maintain secrecy, but limited its decision to the application of Ohio's trade secret law, and because the latter question itself warrants grant of the writ, this brief will not discuss what would seem to be the different considerations presented by the equally erroneous failure of the Sixth Circuit to enforce the contract.

[11] See 5 U.S.C. § 552(b)(4); 15 U.S.C. §§ 46(f), 78x(a), 1193(c), 1263(h), 1401(e); 21 U.S.C. §§ 331(j), 458(a)(5); 33 U.S.C.A. §§ 1320(d), 1369 (Supp. 1973); 35 U.S.C. § 122; 42 U.S.C. §§ 263i(e), 1857f-6(b).

See generally, Milgrim, *Trade Secrets* §§ 6.02, 6.03 (1973).

of Congressional intent is the fact that even in the patent law itself Congress has recognized the validity of trade secrets and has acted to preserve them. Section 122 of the patent law, 35 U.S.C. § 122, provides specifically that applications for patents shall be maintained in secrecy (which secrecy may be breached only in unusual circumstances).

This secrecy is necessary to protect inventors who ultimately obtain a patent from premature disclosure of their inventions during the pendency of their application, *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 671 (1969). But Section 122 is not so limited, and applies even if the application ultimately is denied or abandoned, *Sears* v. *Gottschalk*, 178 U.S.P.Q. 33 (E.D. Va. April 26, 1973).

By this provision, therefore, Congress evidenced its intent to protect trade secrets relating to all discoveries of patentable subject matter—including those which are not sufficiently novel to justify the grant of a patent and those which are not patented because the applicant abandons his application for any reason. In other words, Section 122 recognizes the patent applicant's option to retain his invention as a trade secret even if a patent is not granted. Clearly, this discloses no intent by Congress to preempt the long-standing laws relating to trade secrets.

Nor does enforcement of the State trade secret laws pose any obstacle to the application of the patent law.

The Federal patent law promotes the Constitutionally stated policy of fostering inventions by granting exclusive rights in the form of patents as the *quid pro quo* for the disclosure and publication of the information patented. If a State should grant a patent—or other form of exclusive right to an invention—it would interfere with the Federal law's effort to promote uniform standards for the types of discovery which are entitled to this kind of protection. Moreover, if a State should attempt to reach the same result by indirect means—as by prohibiting anyone from

copying a product that was known to the public, thus giving the first user an exclusive right—it would also interfere with the patent law. *Sears, Roebuck & Co.* v. *Stiffel,* 376 U.S. 225 (1964); *Compco Corp.* v. *Day-Brite Lighting, Inc.,* 376 U.S. 234 (1964).

But the trade secret law does not provide such rights. It does not grant exclusive rights or a monopoly. It does not protect information known to the public. On the contrary, it protects only secrets.

A State law which protects trade secrets from misappropriation does not grant an inventor exclusive rights, as that term is used by the Constitution and as it is reflected in the Federal patent law—which specifically grants the successful inventor an exclusive monopoly in the United States for a stated period of time. Under the patent law, another inventor who makes the same discovery is unable to use it, even if he did not copy the patented invention in any way, or even know of its existence. A trade secret law, on the other hand, grants no protection against anyone making the same discovery independently. It provides only that the secret information cannot be taken from its owner by improper means—breach of contract, theft, or breach of trust.[12]

The Federal patent law requires that in exchange for the grant of a patent, the information will be made public, *Scott Paper Co.* v. *Marcalus Mfg. Co.,* 326 U.S. 249, 255 (1945). But if one is willing to forego a patent or, with respect to inventions which do not satisfy the statutory criteria, is not able to obtain a patent, no law or policy requires that his discovery be made public. "He may keep his invention secret and reap its fruits indefinitely," *United States* v. *Dubilier Condenser Corp.,* 289 U.S. 178, 186

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[12] See, *e.g.*, Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy,* 80 Harv. L. Rev. 1432, 1448 (1967); Restatement of Torts, § 757, and Comment (1939).

(1933). And a State law which protects only the secrecy of such information in no way conflicts with the operation of the patent law.

Indeed, Congress has provided criminal sanctions against Federal employees who wrongfully disclose trade secrets, 18 U.S.C. § 1905, and, as noted earlier, has acted to preserve the confidentiality of trade secrets by many statutes in many different contexts.

That the patent law compels publication as the condition of the grant of a patent does not mean that Congress sought the publication of all technological knowledge. On the contrary, it indicates that Congress recognized that nonpatented information could remain secret, for why else would it require the publication of secrets that are patented?

Indeed, if Congress had explicitly decreed that all inventions or innovative information must be made public, the action would have exceeded the authority granted to it by Art. I, § 8, cl. 8. That provision authorizes Congress only to grant inventors an exclusive right in their discoveries—not to decree that all technological information be public and shared in common. The courts cannot give the patent law an effect which would be beyond the authority of Congress if Congress had sought to reach that result directly.

To be sure, the trade secret law may have a narrowly circumscribed effect which is similar to that of the patent law—*e.g.*, if (and only for so long as) no other person makes the same discovery, no one but the inventor or owner will have the use of the particular invention. However, this results not from the grant of an exclusive right but from the failure of others legitimately to make the discovery. It is not a necessary consequence of the trade secret law, as it is of the patent law.

The law of trade secrets also may have to some degree the same purpose as the patent law—to promote discovery. Even so viewed, however, there would be no conflict, for

the question is not whether the State is seeking to promote the same goals as Congress, but whether the means it utilizes conflict with those employed by Congress, *Florida Lime & Avocado Growers, Inc.* v. *Paul, supra,* at 142. The trade secret laws, as described above, are entirely different in their operation and effect from the patent law and pose no obstacle to its operation; moreover they are chiefly designed to foster the "old fashioned" commercial values of good faith, honesty, and fair dealing.[13]

Contrary to the statement of the Sixth Circuit—apparently based on a statement attributed to counsel for Petitioner (for which there is no factual basis in the Record)—reliance by inventors on trade secret laws instead of the patent law is not for the purpose of preserving a "monopoly" for more than the 17-year patent period. As noted above, *the trade secret laws do not in fact grant a monopoly for any period.* Nor would it be reasonable for inventors to expect that they will be able to maintain the secret for as long as 17 years. Finally, even if secrecy were maintained for that long, in very few instances would technological progress be so slow that the secret would still be valuable.

Thus, even where the State trade secret law grants a form of protection—but entirely different from that provided by the patent law—to inventions which could have been patented but were not, proper Constitutional interpretation would require that it not be rendered inoperative by preemption. *A fortiori* this is true where, under the broad ambit of the instant opinion, the invention is in the category of patentable subject matter but would not have qualified for a patent. For in such cases, the patent law would not even be operative, and the State trade secret law certainly would not conflict with it.

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[13] See, *e.g., Du Pont Powder Co.* v. *Masland,* 244 U.S. 100, 102 (1917); Restatement of Torts, § 757, Comment (a) (1939).

2. Four Other Circuits Have Ruled That Trade Secret Laws Are Not Preempted.

Every Court of Appeals which has faced the question (other than the Sixth Circuit) has ruled that the patent law does not preempt State trade secret laws. On two separate occasions the Sixth Circuit's opinion cites contrary opinions of the four other circuits which have considered the question, and each time it acknowledges that its decision is in conflict with those decisions.[14] In two of these four cases this Court was asked to grant certiorari but declined, thereby leaving in effect, in each instance, a decision contrary to the instant opinion.

The thrust of these four other decisions is perhaps best summarized by Judge Friendly in the Second Circuit:

> "We therefore do not find, either in general considerations of public policy or in emanations from the federal patent law, a sufficient basis for declining to enforce even the royalty provisions of trade secret agreements, at least with respect to cases where no patent application has been filed. . . . [A]n inventor who chooses to exploit his invention by private arrangements is entirely free to do so, though in so doing he may thereby forfeit his right to a patent. Although the [Supreme] Court stated [in *Lear, Inc.* v. *Adkins*, 395 U.S. at 668] that 'federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent,' . . . it did not say or suggest that federal law requires that all ideas must be put in general circulation." [15]

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[14] Appendix to Petition for Writ of Certiorari, pp. A8, A25. The four cases are: *Servo Corp. of America* v. *General Electric Co.*, 337 F.2d 716 (4th Cir. 1964), *cert. denied* 383 U.S. 934 (1966); *Dekar Industries, Inc.* v. *Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), *cert. denied* 402 U.S. 945 (1971); *Water Services, Inc.* v. *Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969); *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971).

[15] *Painton & Co.* v. *Bourns, Inc.*, *supra*, at 225.

3. There Is No Support in This Court's Opinions for the Result Created by the Sixth Circuit.

The opinion of the Sixth Circuit was premised on the belief that it was consistent with this Court's opinions in *Sears, Roebuck & Co.* v. *Stiffel*, 376 U.S. 225 (1964); *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964); and *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969). Yet these opinions dealt with entirely different questions.

Sears and *Compco* involved the question, referred to above, whether a State could—by laws other than trade secret laws—grant a monopoly as to information *which was in the public domain* (there the design of a product in general circulation). As this Court said in *Lear*, citing *Sears* and *Compco*, "federal law requires that all ideas *in general circulation* be dedicated to the common good unless they are protected by a valid patent." 395 U.S. 653, at 668 (emphasis added).

In other words, while *Sears* and *Compco* dealt with subject matter in the public domain, the trade secret laws serve only to protect secret information from misappropriation. Such laws are thus sharply distinguishable from the situation in these two cases.

Nor did *Lear* involve trade secret laws. At issue there was an aspect of the administration of the patent law, *i.e.*, whether State contract law could be enforced to require a licensee to pay royalties for the use of an invention covered by an invalid patent while he was contesting the validity of the patent. Even the concurring opinion of Justice Black, joined by Chief Justice Warren and Justice Douglas, indicated that the patent law does not preclude a State from assisting an inventor in keeping his discovery secret, 395 U.S. at 677.

This Court, on at least two prior occasions, each time per Holmes, J., has upheld the protection of trade secrets, *DuPont Powder Co.* v. *Masland*, 244 U.S. 100 (1917); *Becher* v. *Contoure Laboratories*, 279 U.S. 388 (1929). And

in an earlier opinion, *Board of Trade of City of Chicago* v. *Christie Grain & Stock Co.*, 198 U.S. 236, 250 (1905), Justice Holmes summarized the basic principle of a trade secret (in that case, plaintiff's collection of market quotations) as follows:

> "The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they might, does not authorize them to steal the plaintiff's." [16]

In the very recent opinion of *Goldstein* v. *California*, *supra*, this Court upheld a California statute which in effect granted a State copyright on recordings even though the Federal copyright law at the time could have, but did not, provide such protection. The protection provided by California for recordings was the same as that which the Federal copyright law gave other "writings" and would have provided for recordings if they had been covered by the Federal law before 1972. Nevertheless, this Court recognized that the California statute did not create any conflict with the operation of the Federal copyright law.[17]

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[16] Indeed this Court itself recently has acted to protect the confidentiality of trade secrets. Rule 508 of the Proposed Rules of Evidence for United States Courts and Magistrates provides as follows:

> "A person has a privilege, which may be claimed by him or his agent or employee, to refuse to disclose and to prevent other persons from disclosing a trade secret owned by him, if the allowance of the privilege will not tend to conceal fraud or otherwise work injustice." 56 F.R.D. 183, 249-250 (1972).

See also, Fed. R. Civ. Pro. 26(c)(7).

[17] In reaching its result in *Goldstein*, this Court distinguished *Sears* and *Compco* on the ground that, since Congress had drawn a balance in the area of "mechanical configurations" as to which articles it sought to protect under the patent law and which it wished to remain free, the State could not protect those articles which Congress has specifically elected not to. Yet, as discussed above, *Sears* and *Compco* held only that states could not protect, with a monopoly, information that was *in the public domain;* they

That the Ohio trade secret law is not preempted follows *a fortiori*. The trade secret law safeguards unpatented discoveries—*i.e.*, items which are not protected by the patent law, like the recordings in *Goldstein*. In addition, totally unlike the California law, it provides an entirely different kind of protection from that offered by the Federal law.

CONCLUSION

For the reasons set forth above, MCA submits that the instant opinion presents major Constitutional issues of great economic and technological importance, and that this Court should therefore issue a writ of certiorari to the Sixth Circuit.

Respectfully submitted,

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August 1, 1973

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did not, as Judge Friendly pointed out, hold that nonpatented information must be made public. Nor, also as discussed above, did they bear on the nonmonopoly protection afforded by trade secret laws.

In any event, the writ should be granted also to resolve any questions as to the teachings of *Sears* and *Compco* which may have been raised by this Court's dictum discussion thereof in *Goldstein*.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY,

v.

BICRON CORPORATION, ET AL.

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE AND BRIEF AMICUS CURIAE OF THE ASSOCIATION FOR THE ADVANCEMENT OF INVENTION AND INNOVATION IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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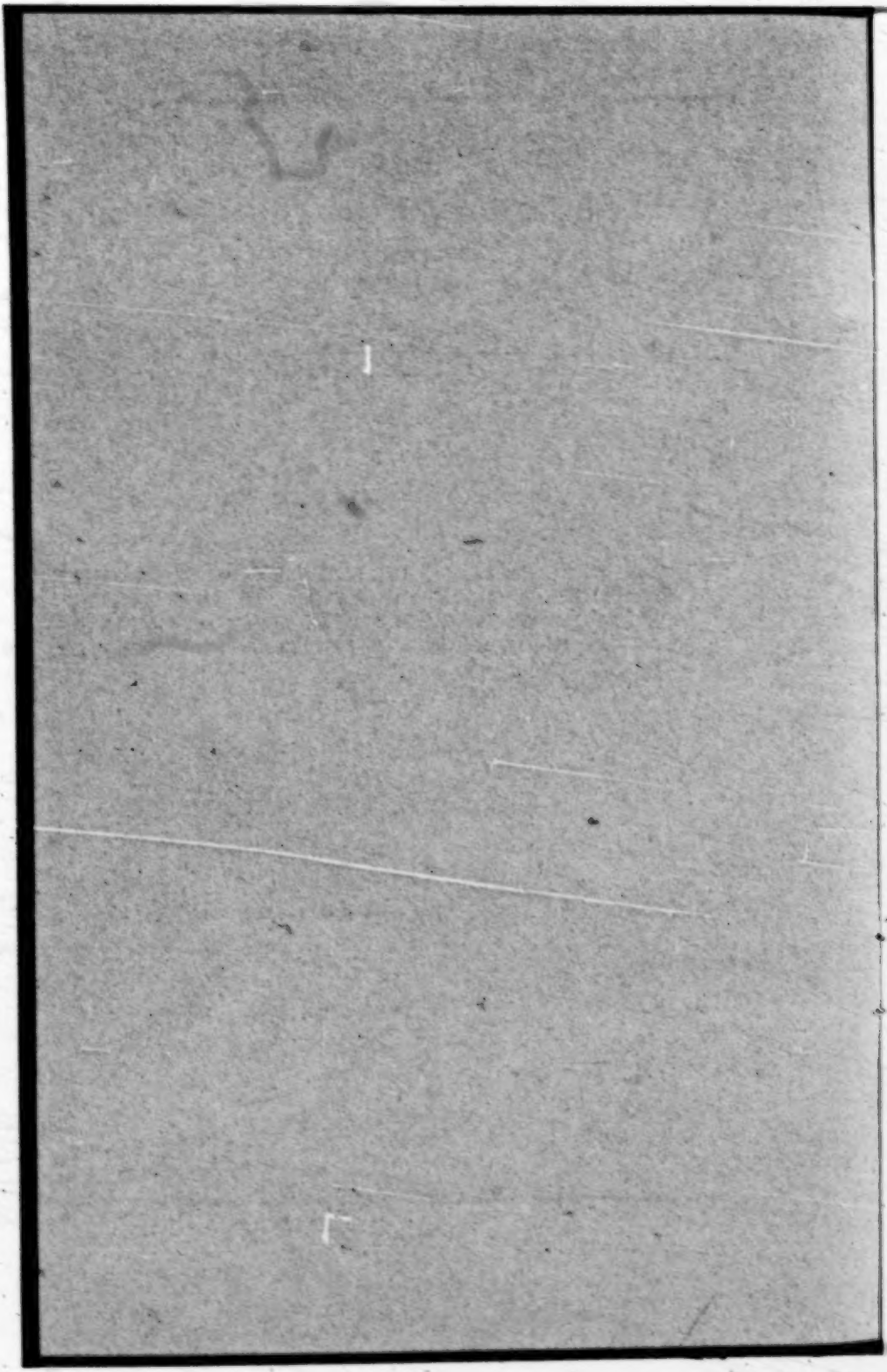

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OCTOBER TERM, 1973

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KEWANEE OIL COMPANY,

v.

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MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE

TO THE HONORABLE CHIEF JUSTICE AND ASSOCIATE JUSTICES OF THE SUPREME COURT OF THE UNITED STATES:

The Association for the Advancement of Invention and Innovation respectfully moves for leave to file the annexed brief amicus curiae in connection with the petition in the captioned case for writ of certiorari to the United States Court of Appeals for the Sixth Circuit.

Consent to the filing of said brief was originally planned to be sought from both parties through their attorneys of record. However, the Association has been advised that the counsel for BICRON CORPORATION, ET AL., defendant-respondents, are opposing

such requests so that this motion becomes necessary under Rule 42 of this Court.

This motion and the attached brief are submitted because the petition in this case raises issues of profound importance to the entire process of invention and innovation in our country and to the future well-being of all of its citizens. These are issues of public import that the parties cannot adequately address directly within the private scope of their pleaded controversy.

The Association has a deep concern for providing a favorable climate for invention and innovation in the country for the public good and believes that it is not an overstatement to say that the present case concerns fundamental issues which are perhaps of greater importance to the future of the invention and innovation in the country than any other case which this Court has considered in its history.

Respectfully submitted,

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BRIEF AMICUS CURIAE OF THE ASSOCIATION FOR THE ADVANCEMENT OF INVENTION & INNOVATION URGING THE GRANT OF A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

I. NATURE OF THE AMICUS

The Association for the Advancement of Invention & Innovation is a non-profit professional association of inventors, entrepreneurs, research directors, businessmen, scientists, engineers, lawyers, patent attorneys, educators, former government officials and others who are dedicated to the proposition of improving the climate for invention and innovation in our country. The combined background of the membership embraces the

entire spectrum of the process of invention (conceiving the idea) and innovation (bringing the invention to the marketplace).

II. INTEREST OF THIS AMICUS

The Association believes that to foster an appropriate climate for invention and innovation in our country there must be (1) uniformity and certainty in the law relating to the process of invention and innovation to enable proper planning and management of such process and (2) incentives to invest the time, money and effort to make inventions and innovations. The present case in the view of the Association raises basic issues having a major impact on the process of invention and innovation in the country both at the present time as well as the long-range future.

III. WHY THE PETITION FOR WRIT OF CERTIORARI SHOULD BE GRANTED

A. On the Question of Uniformity and Certainty

The decision below creates a situation in the country of non-uniformity and uncertainty with regard to the protection of trade secrets and confidential know-how which will have an adverse effect on the proper planning and management of the process of invention and innovation . Admittedly, the decision departs from the long-established law in this field elsewhere in the country. Thus, managers of invention and innovation are faced with a multitude of complex questions, such as:

(1) Should the payment of royalties under existing know-how license agreements be continued or discontinued?

(2) Should new license agreements be negotiated and if so, on what basis?

(3) Should budgets for research and development be reduced?

(4) What assurances, if any, can U.S. companies give foreign licensors of technology needed by the country with regard to maintaining know-how confidential?

(5) How can U.S. companies protect the confidentiality of their know-how licensed to foreign companies and the royalty payments payable thereunder?

(6) Should a program of copying know-how of other companies be substituted for a company's research and development program?

(7) Should research and development laboratories be moved from states in the Sixth Circuit to other states?

B. On the Question of Public Policy Affecting Incentives for Invention and Innovation

The decision below raises a number of major public policy questions which require the attention of this Court, namely:

(1) Are state laws protecting trade secrets in conflict with the United States patent laws:

(2) Should a voluntary agreement between an employer and an employee under which the employee is to make inventions and innovations for the employer and keep them confidential not be binding on both parties?

(3) Will the decision below in fact promote or debilitate the progress of the useful arts in our country?

(4) If the basic law is to be changed in this field in a way which will have a major impact on the economic system of the United States (e.g., balance of trade, productivity, etc.), should such change be effected by judicial action or by the Congress?

(5) Is the decision below consistent with the provisions of the international treaties signed by the United States in the field of trade secrets?

IV. CONCLUSION

For the foregoing reasons, the interests of the public in having uniformity and certainty in the law relating to trade secrets and appropriate incentives for invention and innovation should be promoted by granting the petition for a writ of certiorari.

Respectfully submitted,

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KARL W. FLOCKS
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Attorneys

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IN THE

Supreme Court of the United States

October Term, 1973

No. 73-187

KEWANEE OIL COMPANY,

Petitioner,

against

BICRON CORPORATION, *et al.*,

Respondent.

MOTION BY THE NEW YORK PATENT LAW ASSOCIATION FOR LEAVE TO FILE A BRIEF AS *AMICUS CURIAE* IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI

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IN THE

Supreme Court of the United States

October Term, 1973

No. 73-187

KEWANEE OIL COMPANY,

Petitioner,

against

BICRON CORPORATION, *et al.*,

Respondent.

MOTION BY THE NEW YORK PATENT LAW ASSOCIATION FOR LEAVE TO FILE A BRIEF AS *AMICUS CURIAE* IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI

The New York Patent Law Association hereby moves the Court for leave under Rule 42 (1) to file the accompanying brief, as an *amicus curiae,* in support of the petition of Kewanee Oil Company for the issuance of a writ of certiorari—to effect a review by this Court of the decision of the Court of Appeals for the Sixth Circuit in this case holding that the trade secret laws of Ohio are in conflict with, and hence pre-empted by, the Federal patent laws.

Consent to the filing of the accompanying brief was requested of the parties, and the petitioner consented, but the respondents declined, stating that "Respondents will not consent . . . [but] will not, however, oppose the motion of the Association." In view of this lack of unanimous consent, the Association is proceeding by way of this motion.

The interest of the Association, as discussed in greater detail in the accompanying brief, is predicated upon the interests of its 1,200 lawyer members, who have active practices in the field of intellectual property and, as such, have day-to-day contact with the patent and trade secret laws, the operation of these laws and their impact upon both individuals and corporations, and the effect these laws have upon industrial growth, economic development and general public welfare.

The concern of the Association with the decision of the Court of Appeals in this case is predicated not only upon its interest in the proper development of the patent and trade secret laws but also upon the serious and far reaching impact of this decision, both nationally and internationally, and the uncertainty it projects as a consequence of its acknowledged conflict with the decisions of the four other Courts of Appeals that have ruled upon the same issue. This conflict has been discussed in the accompanying brief, but the Court's attention is directed also to the apparent conflict even within the Court of Appeals for the Sixth Circuit itself. Thus, since its decision in this case, another panel of the same court has affirmed a criminal conviction, and consequent imprisonment, based upon the theft of a trade secret from a corporation located in New Jersey. See *United States* v. *Greenwald* in which a petition for a writ of certiorari has already been made to this Court, as Petition No. 73-24.

As a consequence of this Association's long commitment to the patent and trade secret fields, its strong interest in the proper development of the law in these fields, and its grave concern over the far reaching effects which an improper decision vitiating long-standing trade secrets rights will have, all of which are discussed in the accom-

panying brief, it is respectfully urged that leave to file this brief be granted.

Respectfully submitted,

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Certificate of Service

The undersigned hereby certifies that copies of the foregoing Motion and the accompanying Brief were on this ..... day of ....., 1973 mailed by regular local mail or airmail to counsel for Petitioner and Respondent, i.e. airmail to Mr. Edward P. Troxell, Jones, Day, Cockley and Reavis, 1750 Union Commerce Building, Cleveland, Ohio 44115, local mail to Mr. Roger Milgrim, Milgrim, Tomajan and Jacobs, 25 Broadway, New York, New York 10004 and airmail to Mr. William C. McCoy Jr., Bosworth, Sessions & McCoy, 625 National City Bank Bldg., Cleveland, Ohio 44114.

.....

MOTION FILED

SUPREME COURT, U. S.

AUG 7 1973

IN THE

Supreme Court of the United States

OCTOBER TERM, 1972

No. 73-187

KEWANEE OIL COMPANY, *Petitioner*

v.

BICRON CORPORATION ET AL, *Respondents*

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE

and

BRIEF AMICUS CURIAE OF THE AMERICAN PATENT LAW ASSOCIATION IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

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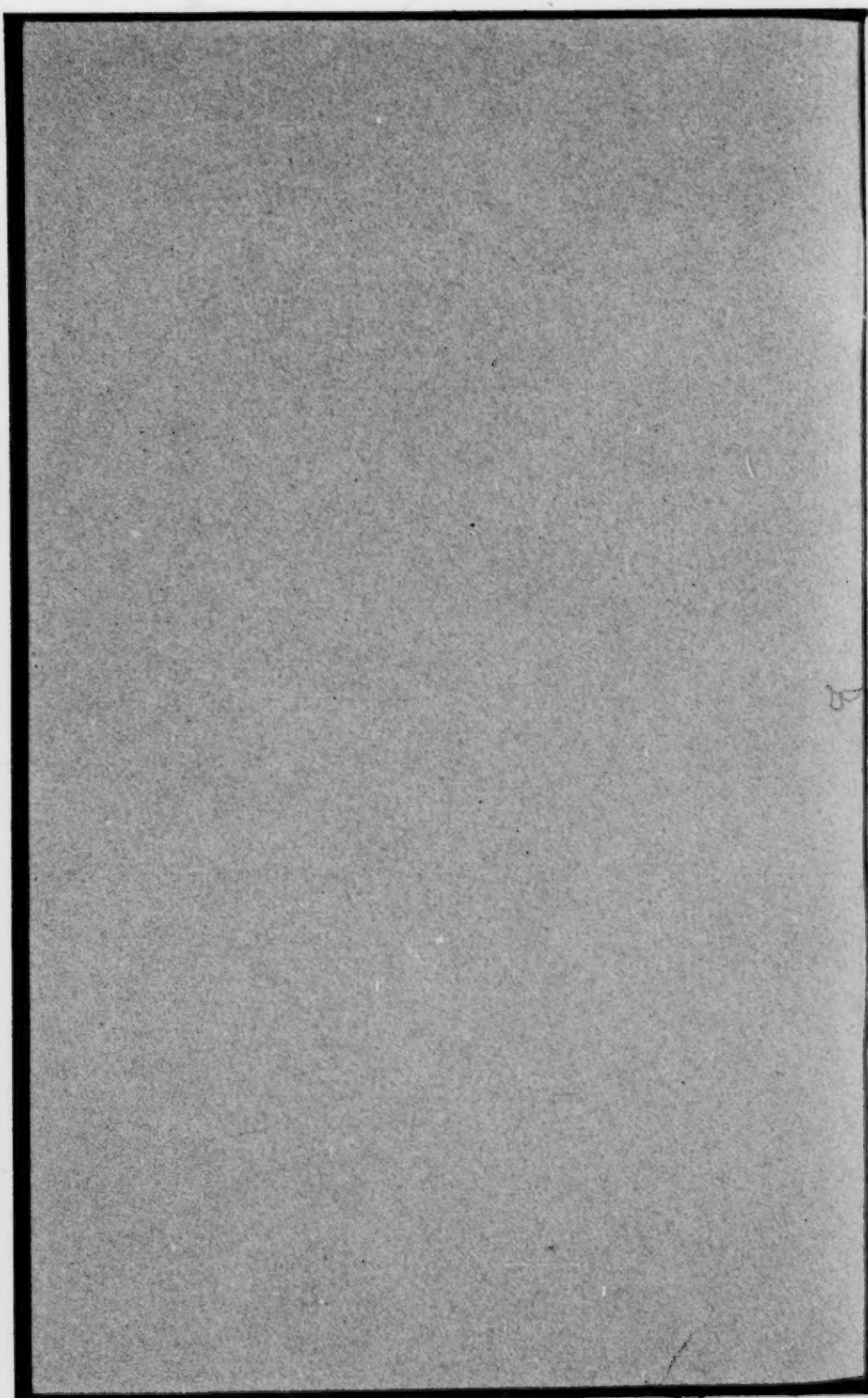

IN THE

Supreme Court of the United States

OCTOBER TERM, 1972

No.

KEWANEE OIL COMPANY, *Petitioner*

v.

BICRON CORPORATION ET AL, *Respondents*

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE

To the Honorable Chief Justice and Associate Justices of the Supreme Court of the United States:

The American Patent Law Association respectfully moves for leave to file the annexed brief *amicus curiae* in support of the petition in the captioned case for a writ of certiorari to the United States Court of Appeals for the Sixth Circuit.

Consent to the filing of the annexed brief was sought from both parties through their attorneys of record.* This motion is necessary because the Respondents, while not opposing the brief, do not consent to it.

This motion and the attached brief are submitted because the question presented on the petition in

---

* The correspondence requesting consent and the replies are reproduced herein at pages 3 to 5.

this case is of basic importance to the relationship between the United States patent law and the law relating to trade secrets and other unpatented technical information. The issue is of public import far transcending the specific interests of the parties to this litigation and one upon which the views of the American Patent Law Association may be of assistance to this Court.

The American Patent Law Association has approximately 3800 members, all lawyers practicing in the United States. They constitute approximately half of the patent lawyers in the country. The members of the Association are regularly engaged in obtaining, enforcing, and licensing rights to both patented and unpatented technology. Because the decision below nullifies many rights to unpatented technology, and greatly curtails the scope of whatever rights may be left, the Association is deeply concerned with the ruling and submits this motion and the annexed brief to the end that the uncertainties generated by the ruling below may be promptly resolved.

Respectfully submitted,

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By
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JOHN T. KELTON
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Its Attorneys

August 6, 1973

EXHIBIT No. 1

July 12, 1973

Mr. William C. McCoy, Jr.
Bulkley Bldg., Room 524
1501 Euclid Ave.
Cleveland, Ohio 44115

Dear Mr. McCoy:

Kewanee Oil Company vs. Bicron Corporation, et al. Nos. 71-1041 and 71-1042 Court of Appeals for the Sixth Circuit, Opinion 5-10-73

You will recall our telephone discussion of some days ago regarding the intention of American Patent Law Association to file a brief on the Petition in the above case.

The purpose of this letter is to ask, on behalf of American Patent Law Association, for your written consent to the filing of such brief.

The brief has not yet been prepared. We do expect that it will call the Court's attention to the extent that the opinion of the Court of Appeals for the Sixth Circuit conflicts with the Court of Appeals for the Second Circuit and other Courts of Appeal; unsettles the law pertaining to contractual and related rights in technical information; and affects a large number of business transactions that collectively are of great economic significance. We expect to urge the Court to grant the Petition.

We look forward to your response.

Sincerely,

/s/ GEORGE E. FROST

EXHIBIT No. 2

July 23, 1973

George E. Frost, Esq.
3044 West Grand Boulevard
Detroit, Michigan 48202

Re: Kewanee Oil Company vs.
Bicron Corporation et al.

Dear Mr. Frost:

This responds to your letter of July 12, 1973 and confirms our telephone conversation.

While Bicron will not consent to the filing of an amicus curiae brief by the American Patent Law Association, neither will it oppose any such brief. As we read Supreme Court Rule 42(1), such briefs are not favored.

Very truly yours,

/s/ W. C. McCOY, JR.

EXHIBIT No. 3

July 16, 1973

Mr. Edward P. Troxell
Jones, Day, Cockley & Reavis
1750 Union Commerce Building
Cleveland, Ohio 44115

Dear Mr. Troxell:

Kewanee Oil Company v. Bicron Corporation, et al. Nos. 71-1041 and 71-1042—Court of Appeals for the Sixth Circuit, Opinion—May 10, 1973

This letter is addressed to you as attorney for Kewanee Oil Company in the above case. The purpose of this letter is to ask, on behalf of American Patent Law Association, for your written consent to filing a brief, amicus curiae, on the Petition in the above case.

The brief has not yet been prepared. We do expect that it will call the Court's attention to the extent that the opinion of the Court of Appeals for the Sixth Circuit conflicts with the Court of Appeals for the Second Circuit and other Courts of Appeal; unsettles the law pertaining to contractual and related rights in technical information; and affects a large number of business transactions that collectively are of great economic significance. We expect to urge the Court to grant the Petition.

Sincerely,

/s/ GEORGE E. FROST

EXHIBIT No. 4

July 18, 1973

George E. Frost, Esquire
Attorney at Law
3044 West Grand Boulevard
Detroit, Michigan 48202

Re: Kewanee Oil Co. v. Bicron Corporation, et al.—No. 71-1042—Sixth Circuit

Dear Mr. Frost:

I have your letter of July 16, 1973. In response to the first paragraph of your letter, kindly be advised that Kewanee Oil Company consents to the filing of a brief, amicus curiae, in support of the Petition for Certiorari which will be filed in the Supreme Court of the United States on behalf of Kewanee Oil Company on or about July 27, 1973.

It is my understanding that this brief will be filed on behalf of the American Patent Law Association. We not only consent to the filing of this brief but welcome your support.

Thank you for bringing this matter to our attention.

Sincerely yours,

/s/ EDWARD P. TROXELL

IN THE

Supreme Court of the United States

OCTOBER TERM, 1972

No.

KEWANEE OIL COMPANY, *Petitioner*

v.

BICRON CORPORATION ET AL, *Respondents*

BRIEF AMICUS CURIAE OF THE AMERICAN PATENT LAW ASSOCIATION IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

The narrow issue in this case is whether the trade secret law of Ohio can "protect an invention which would be an appropriate subject for a patent under the Patent Laws of the United States, and which has been used commercially for more than one year." Petition A-8. The Court concluded that such protection is "in direct conflict with the Patent Laws." Petition A-25. More broadly (although the Court did not decide the matter) the issue of the case is

the extent the United States Patent Laws preempt the whole field of protection for technological developments.

Both the narrow issue ruled upon below, and the broader issue inherent in the case, are of basic importance to the United States system of incentives for scientific research and development, and the marketing of inventions. In *Sears Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964) and in *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), this Court held that unconventional principles of Illinois state law derived from state court rulings could not support an injunction against the manufacture of an unpatentable product in the public domain. The specific ruling in each of these cases was only that patent-like injunctive remedies, unlimited in time and directed to products known to the public and specifically held to be unpatentable, created a patent-like system in direct conflict with the United States system. The language used by this Court in these two cases extended beyond the specific issue decided, and has been construed by some as entailing a broad and all-inclusive Federal preemption by the patent statutes, of all protection for technology, patented and unpatented, and whether or not in the public domain.

The Court below made such construction in its lengthy analysis of the United States patent law and Ohio trade secret protection. Petition, pp. A-7 to A-24. Inconsistently, we think, the Court expressly confines its holding to the situation of a trade secret which—though once patentable—is no longer patentable because it has been used for more than one year in the manufacture of a commercial product. Such

narrowing of the holding increases rather than decreases the need for review by this Court.

The district court, below, enjoined the use of 20 trade secrets. Petition, p. A-1. Counsel apparently stated to the Court of Appeals that each was patentable subject matter under 35 U.S.C. 101 i.e. that each was a "new and useful process, machine, manufacture, or composition of matter, or "new and useful improvement thereof." The court treated this as proof that patents could have been obtained, but that the right was forfeited by more than one year commercial use. Petition, p. A-7. If any of the 20 enjoined trade secrets would have been obvious over the prior art (and therefore not patentable under 35 U.S.C. 103) the Court of Appeals below would apparently have affirmed the District Court to that extent. If one of the trade secrets was a computer program not patentable under this Court's ruling in *Gottschalk* v. *Benson,* —— U.S. —— (No. 71-485, decided Nov. 20, 1972), the Court of Appeals would seemingly have affirmed. Or if one of the trade secrets was purchased by the plaintiff from an "inventor" who is disentitled as a person from obtaining a patent (e.g. 35 U.S.C. 4), the Court of Appeals would apparently have affirmed. In short, the less patentable the secret, the more protectable it became in the eyes of the Court of Appeals below. It is confusing law that provides greater protection for what the Congress has determined *cannot* be patented and draws a distinction between what could have been patented but was not and what never could have been patented. In any event, the uncertainties inherent in these distinctions amplify the unsettling effect of the ruling and reinforce the need for a ruling by this Court.

In addition to the above issues generated by the ruling below when considered narrowly, there are numerous unsettling questions that arise when the broad reasoning is taken into account. Overall, at least the following problems exist:

1. Federal Rule 26(c) specifically directs the lower courts to consider whether, on discovery, "a trade secret or other confidential research, development, or commercial information not be disclosed or be disclosed only in a designated way."

   This Court, in *duPont* v. *Masland,* 244 U.S. 100 (1917), noted with apparent approval the use of *in camera* proceedings to preserve the trade secret character of technical subject matter. The decision below opens up the whole question of whether any such discovery qualifications are sound. The Federal Courts are confronted with this problem on a day-to-day basis. Should there be one rule as to Federal Courts in the Sixth Circuit and a different rule as to Federal Courts in other Circuits?

2. A similar problem arises in day to day operation of the Federal agencies. The Freedom of Information Act 5 USC 552(b)4, makes "trade secrets . . . obtained from a person and privileged or confidential" exempt from public availability. Further 18 USC 1905 makes it a crime for a government employee to divulge a trade secret. The ruling below clouds these statutes and generates a question whether the government agencies and employees should follow one approach where a trade secret is in the Sixth Circuit and

a different approach where the secret is in another circuit.

3. The United States Patent Office, pursuant to 35 USC 122, treats pending patent applications as confidential and secret. The reasoning of the court below places a cloud on this practice and conflicts with 35 USC 122.

4. At least 21 states have statutes rendering trade secret theft a crime. All of these statutes are invalid if the reasoning below stands. On June 18, 1973 this Court ruled in *Goldstein* v. *California*, No. 71-1192, that the analogous record pirating criminal statute of California did not conflict with the United States Copyright Law. The *Goldstein* ruling conflicts in principle with the ruling below. Moreover, in *United States* v. *Greenwald* (No. 72-2117 Court of Appeals for the Sixth Circuit, decided June 1, 1973) (Petition for Certiorari No. 73-24 filed June 28, 1973) another panel of the court below construed 18 USC 2314 to encompass a secret chemical formulation and affirmed the conviction of Greenwald.

5. The ruling below places a cloud on technical employe agreements to honor trade secret and confidential information, at least after the secret or information has been used commercially (but not necessarily publicly) for one year, and regardless of the reasonableness of the agreement in other respects. Nearly all scientists and engineers employed by industry now operate under agreements of this type.

6. The ruling below makes unenforceable many agreements for compensation for "knowhow" and unpatented technical information, again without regard to the reasonableness of the agreement in other respects. In *Painton* v. *Bourns,* 309 Fed. Supp. 271 (S.D.N.Y., 1970), Judge Motley—applying analysis similar to that of the court below in the present case—refused to require a British manufacturer to honor an agreement to pay royalties to a California corporation for the use of trade secrets. The unsettling effect of Judge Motley's ruling was corrected by reversal on appeal, 422 F(2d) 216 (2d Cir., 1971). Now the court below—coordinate in jurisdiction with the Court of Appeals for the Second Circuit—has reached the opposite result. Whether an agreement is now enforceable or not depends on which Court of Appeals receives the case. The matter is of great importance. A substantial part of the favorable balance of foreign trade comes from licensing agreements wholly or largely based on "know-how" and unpatented technology, as occurred in *Painton* v. *Bourns.*

Your amicus is moved to file this brief because the issues presented are of exceptional importance and will require early resolution by this Court in any event. The issues, the opinion below, and the diametrically opposed ruling by the Court of Appeals for the Second Circuit in *Painton* v. *Bourns,* 422 F (2d) 216 (1971), as well as other conflicts noted by the court below, all make the case ripe for certiorari and a resolution by this Court of the inconsistent interpretations that have been given to its rulings in *Sears Roebuck & Co.* v. *Stiffel Co.,* 376 U.S. 225

(1964) and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

Respectfully submitted,

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The undersigned hereby certifies that copies of the foregoing were, on the 7th day of August, 1973 mailed by registered airmail to counsel for Petitioner and Respondent as follows:

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UPREME COURT, U. S.

Supreme Court of the United States

October Term, 1973

No. 73-187

KEWANEE OIL COMPANY,
Petitioner,

vs.

BICRON CORPORATION, *et al.*,
Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

BRIEF OF RESPONDENTS IN OPPOSITION

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Supreme Court of the United States

October Term, 1973

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KEWANEE OIL COMPANY,
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Respondents.

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

BRIEF OF RESPONDENTS IN OPPOSITION

COUNTERSTATEMENT OF QUESTION PRESENTED

Petitioner's statement of the question presented is too broad.

The Court of Appeals concluded that a state trade secret law, which protected Kewanee in the maintenance of a monopoly of a device which was an appropriate subject for patent under the United States Patent Laws, was in conflict with the policies and purposes of those patent laws where such device had been used commercially for more than one year. The Court of Appeals reasoned that once a device had been in commercial use for more than one year so as to become prior art within the scope and

intent of the patent laws and once all rights to patent protection had been forfeited, such device could not be protected by a permanent injunction under a state trade secret law (A. 24 & 25).

Respondents submit that, in the context of this case, the question should be:

> **Whether a state law of trade secrets can permanently enjoin the use of processes and equipment which are part of the prior art in accordance with the federal patent statutes and whether any such state law is in conflict with the policies and purposes of the federal patent statutes.**

COUNTERSTATEMENT OF THE CASE

The processes, methods and techniques for the manufacture of sodium iodide scintillation crystals are described in the literature and are by no means the exclusive development of Kewanee.

Sodium iodide thallium activated crystals were invented by Professor Robert Hofstadter of Princeton University. He obtained a patent on them, which has expired. The furnaces for growing such crystals were invented by Professor Donald Stockbarger of the Massachusetts Institute of Technology, were described in published articles, and were patented by him. The Stockbarger patent has expired. Harshaw had two patents on purifying the sodium iodide for use in the manufacture of these crystals, and those patents have now expired.

In 1950, the United States Atomic Energy Commission contracted with Harshaw to work out the commercial development of scintillation crystals. This work continued through December 1953, was paid for by the Atomic Energy Commission, and was published. Between 1955 and 1960 there were a number of places where people

were doing work and writing papers on sodium iodide crystals, including the Argonne National Laboratory and the Oak Ridge National Laboratory. Three United States companies other than Kewanee and several foreign companies grow sodium iodide crystals.

Notwithstanding the statements made at pages 4 and 5 of the petition, there was no finding that any of the named defendants had breached any fiduciary or other duty by going into competition with Kewanee.

The district court held in its finding 109 as follows:

> "The Court finds that plaintiff has failed to establish by the requisite degree of proof that the named defendants breached any fiduciary or other duty by going into competition with Harshaw or by planning to go into competition with Harshaw while still in Harshaw's employ."

Additionally, Bicron contended that it had not and would not use many of Kewanee's purported trade secrets and that most of the remaining ones were in the prior art. The district court accepted these contentions.[1]

The reason that the district court issued an injunction was a conclusion that there was "imminent danger" of disclosure of Kewanee's purification trade secrets to Bicron and the use of those trade secrets by Bicron (I. 136).[2] Bicron's first attempt to manufacture a crystal had failed.

Kewanee argues that the injunction sought was solely to prevent the unauthorized use of its trade secrets and not to prevent competition, but Kewanee's clear purpose was to maintain its monopoly and eliminate Bicron as a competitor. Kewanee sought a permanent injunction to prevent the individual defendants from remaining in the

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[1] Please refer to finding of fact 46 which is reproduced at page 11 of the appendix to this brief.

[2] The reference is to page 136 of Volume I of the joint appendix of the parties in the Court of Appeals.

employ of Bicron (I. 20), which would have eliminated Bicron as a competitor. Kewanee obtained a temporary restraining order[3] which shut down Bicron for about forty days, from the date of service of the order until the conclusion of the hearing on the preliminary injunction, at which time the district court indicated that it was not going to grant the full relief requested by Kewanee and Bicron might resume operations at its own risk.

The permanent injunction issued by the district court prohibited the individually-named defendants from accepting or undertaking any employment which "*could* encourage, require, permit, call for or result in the disclosure and/or use of the trade secrets of plaintiff" (I. 138, emphasis supplied). Kewanee circulated that isolated statement in the trade with the clear implication that Bicron had to discontinue the manufacture of sodium iodide thallium activated crystals and had been eliminated as a competitor.[4] At a subsequent hearing, the district court disclaimed Kewanee's interpretation of that portion of its injunction.

Although the district court chronicled numerous instances of lack of security at Kewanee,[5] it concluded that there had not been sufficient disclosure so as to place the claimed trade secrets in the public domain. No inhibitions were placed on the movements of Kewanee employees about its plants. Access to the purported trade secrets was not restricted to those employees having a legitimate employment-related need to know them. Bicron

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[3] The temporary restraining order was issued April 17, 1970 without notice to Bicron on a bond of $5,000 (I. 24). Kewanee claimed damages of $1,000,000.

[4] The full text of the decision of the district court, however, was not available to the public but had been sealed at Kewanee's request.

[5] See findings of fact 105, 106, 107 and 108 reproduced at pages 12 and 13 in the appendix to this brief.

contended in the Court of Appeals that Kewanee had not taken the necessary precautions to maintain secrecy and that the findings of the district court supported its position, but the Court of Appeals denied this contention (A. 4).

The case was argued twice, first on October 20, 1971 and then, because one of the judges on the panel died, it was reargued on April 10, 1972.

REASONS WHY THE WRIT SHOULD BE DENIED

It Is Premature to Grant Certiorari; There Is No "Real and Embarrassing" Conflict

(1) The authorities on trade secrets and employer-employee relationships recognize a number of distinct theoretical bases for protection of the legal rights involved, such being in tort, contract, implied contract, and in equity.[6] The reason is that there are a number of different circumstances out of which the problems can arise. For instance, *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971), involved a license from one company to another of "know-how" engineering information, blueprints and the like on a continuing basis, which is sometimes called a technical service agreement. The precise holding of the Second Circuit is that it did not find, either in general considerations of public policy or in emanations from the federal patent law, sufficient basis for declining to enforce the provisions of the technical service agreement between the parties. The effect was that Painton had to make the royalty payments it had contracted for and was not relieved of such obligation by reason of conflict or preemption.

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[6] Volume 2, R. Callman, UNFAIR COMPETITION, TRADEMARKS & MONOPOLIES, §51 (3rd Ed. 1968); R. Ellis, TRADE SECRETS, Chapter 1 (1953).

The issue in *Water Services, Inc. v. Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969), was whether or not a contract not to compete between an employer and his former employee was reasonable and enforceable and whether the employer had to establish the existence of trade secrets in order to enforce the contract. The court held that the contract was valid and enforceable and that the existence of trade secrets did not have to be shown in order to enforce the contract, although in fact there were protectible trade secrets involved.

Still another situation is that reflected in *United States v. Greenwald*, No. 72-2117 (6th Cir. June 1, 1973).[7] where a chemical engineer appropriated a set of handwritten formulations and was apprehended in the act of selling them to a competitor, the crucial issue being whether or not such set of formulations were "goods, wares or merchandise" within Title 18, United States Code, Section 2314.

It is premature for the Court to grant certiorari because there has not been full consideration and discussion by the lower courts of the multi-faceted issues raised in the interplay between the patent statutes and trade secrets and know-how in employee-employer relations, technical service agreements, unfair competition, and the theft of work-product documents.

(2) There is no "real and embarrassing" conflict of opinion between the decisions of the various Courts of Appeals as required by *Layne & Bowler Corp. v. Western Well Works*, 261 U.S. 387, 393 (1923).

In *Painton & Co. v. Bourns, Inc. supra*, the preemption issue was not raised by the parties but, instead, was injected into the case by the district court sua sponte. On appeal, even though the prevailing party declined to argue

[7] Reprinted as Appendix E of Kewanee's petition.

the issue, the Second Circuit Court of Appeals felt constrained to pass upon it. As previously noted, the controlling issues were contractual involving a technical service agreement and payment for past services, not an injunction.

Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964), was decided right after the *Sears-Compco*[8] cases and was distinguished from them on the basis of a breach of a confidential relationship. This was five years before *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

Water Services, Inc. v. Tesco Chemicals, Inc., supra, was a contract case in which the federal preemption statements are pure dicta.

In *Dekar Industries Inc. v. Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), the court devoted only one sentence[9] to the conflict question.

(3) The Court has just decided two conflict/federal preemption questions, *Goldstein v. California*, 93 S. Ct. 2303 (1973), and *City of Burbank v. Lockheed Air Terminal*, 93 S. Ct. 1854 (1973). *Goldstein* was a preemption case, the issue being whether states could pass criminal laws against tape pirates in the absence of any coverage of them in the federal copyright laws. There was no direct conflict between state and federal laws as in *Sears-Compco* and in the instant case. Furthermore, the Court distinguished between patents and copyrights and, in the paragraph preceding the quotation in Kewanee's petition (p. 9), clearly indicated that state unfair competition law could not preclude the copying of "mechanical configurations which did not possess the qualities required for the granting of a federal design or mechanical patent."

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[8] *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

[9] 434 F.2d at 1306.

The Decision Below Is Correct

The decision of the Court of Appeals is correct and need not be disturbed. It naturally follows from the *Sears-Compco* cases and from *Lear, Inc. v. Adkins, supra.*

A direct conflict between state trade secret law and the patent statutes results when Kewanee is permitted to obtain a permanent injunction against the use of processes and equipment which are in the prior art as defined by the patent statutes. Kewanee and other large companies have no incentive to try to patent their technical developments when they can obtain better protection via state trade secret laws.[10] It is public policy to encourage the disclosure and public use of ideas as opposed to the maintenance of trade secrets. *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253, 1258 (6th Cir. 1972).

The Rule of the Court Below Should Be Interpreted Reasonably: It Only Redresses the Balance Between Patents, Trade Secrets and the Public Interest.

Kewanee and the amici from which briefs are presently available characterize the decision of the Court of Appeals as one which would do away with technical service agreements and strike down all aspects of the protection and licensing of trade secrets and know-how. This is not a reasonable interpretation of the decision.

The Court of Appeals would not permit an injunction prohibiting Bicron from using processes and equipment which were part of the prior art in accordance with

---

[10] In this case, for instance, with respect to trade secret 1(c), Kewanee had an allowed patent application which it deliberately permitted to become abandoned, choosing, in the words of its attorney, "not to pay the final fee and have the patent issue, but, rather, to maintain the information as a trade secret" (Tr. 1265).

the patent laws. Nothing was said, for instance, about technical service agreements. There is no reason to suppose that they are not still valid and enforceable except as to injunctions granting relief in conflict with the patent statutes.

The Court of Appeals recognized this sort of distinction in *Troxel Manufacturing Co. v. Schwinn Bicycle Co., supra,* where it decided that a patent licensee was not entitled to a refund of royalties paid on a patent which subsequently was found to be invalid. The licensee was held to his contract and made to pay for what was subsequently determined to have been in the prior art.

The decision of the Court of Appeals is not a disaster which is likely to curtail the United States research effort, upset the balance of payments and nullify all technical service agreements. Rather, it is a point from which trade secret law can develop which is not in conflict with the patent statutes, encourages the disclosure and public use of ideas, and strikes a fairer balance between the interests of those involved in this area of the law.

CONCLUSION

For the reasons set out above, the petition should be denied. The decision of the Sixth Circuit Court of Appeals is correct, there is no "real and embarrassing" conflict, and it is too soon for this Court to deal with these matters.

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APPENDIX

Finding of Fact 46

46. The defendants dispute the validity of each element and of each procedure and sub-process of plaintiff's claimed trade secrets as contained in PX 56. Defendants seek to defend their position by contending *that Bicron and the defendants had not, do not, and will not follow or use the following processes and elements set forth in PX 56:*

Under procedure (1): (a); (b); (c); and (i).

Under procedure (2): (a) and (b).

Under procedure (3): The first two sentences of (c); also, the following sub-process in (c);

* * * * *

also, the last sentence of (3) (c); the second sentence of (3) (d); and (3) (f).

Under procedure (4): (a) (i) and (ii); (b); (c) (ii) and (iii); (e); (g); and (i).

The defendants' second contention with regard to PX 56 is that the following elements, procedures and sub-processes thereof are in the teaching of prior art and are public knowledge.

Under procedure (1): (d); (e); (f); (g) (i) and (ii); and (h).

Under procedure (3): (a); (b) (i) (ii) (iii) and (iv); the third and fourth sentences of (c); the first and third sentences of (d); and (e).

Under procedure (4): (c) (i); (d); (f); and (h).

The Court finds that the preponderance of the evidence supports the contentions of the defendants in this finding No. 46. (Emphasis supplied.)

Findings of Fact 105-108

105. Harshaw witnesses have insisted that visitors to the areas wherein crystals were being manufactured were required to sign in and were not permitted to observe its trade secrets.

106. Harshaw's witnesses admitted that persons not employees of Harshaw were given access to the Harshaw canning and encapsulation facilities without being required to sign secrecy agreements (Tr. 336, 519-23, 529). Swinehart admitted that persons not employees of Harshaw were taken through the Harshaw purification room (Tr. 814, 822). Harshaw's witnesses admitted that persons not employees of Harshaw were taken through the Harshaw furnace room (Tr. 345, 524, 814). Nothing was covered up or concealed from any visitor during the time they were visiting the Harshaw plant (Tr. 488). No visitor to the Harshaw Elyria facility signed in. There was testimony about visitors signing in and visitor sign-in books but when presented it was found that only the employees of Harshaw signed in (Tr. 409-10, 250, 290-01; DX K, DX L, DX M).

107. Harshaw catalogues and the catalogues of International Nickel and Engelhard Industries have photographs of Harshaw crucibles, Harshaw furnaces, Harshaw string saws, Harshaw dry boxes, Harshaw purification, and Harshaw encapsulation (Tr. 94, 361-72; PX 41 A, DX A, DX B, DX I). Television station Channel 5 made a movie of portions of Harshaw's 97th Street research laboratory and showed it on television (Tr. 329). Professor Smakula from Massachusetts Institute of Technology is a consultant for Harshaw and wrote a textbook on crystal growth, and he did not clear his book with Swinehart for revelation of trade secrets (Tr. 825). Harshaw has publicized the

fact that it grows sodium iodide crystals up to 17 inches in diameter (DX D; Tr. 327). Harshaw is preparing to grow a 30-inch sodium iodide thallium activated crystal (Tr. 355). Harshaw has shown, in an advertisement, a photograph of a sodium iodide thallium activated crystal with a cone angle of 135° (Tr. 1135; DX W). Harshaw makes no claim that a 135° angle is a trade secret of Harshaw (Tr. 792).

108. Based upon findings Nos. 105, 106 and 107, and upon all the evidence in the case including the fact that other employees of Harshaw were permitted to work on and observe Harshaw's claimed trade secrets, the Court finds that not sufficient disclosure occurred so as to place the claimed trade secrets in the public domain.

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SUPREME COURT, U. S.

No. 73-187

In the

Supreme Court of the United States

OCTOBER TERM, 1973

KEWANEE OIL COMPANY,

Plaintiff-Petitioner,

vs.

BICRON CORPORATION et al.,

Defendants-Respondents.

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE OF AMERICAN BAR ASSOCIATION IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI AND BRIEF AMICUS CURIAE

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Defendants-Respondents.

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE

The American Bar Association respectfully requests, pursuant to Rule 42.1 of this Court, leave to file the following brief urging the grant of a writ of certiorari. The consent of the parties Bicron Corporation et al. to file a brief amicus curiae has been refused.

Your petitioner, the American Bar Association, consists of over 170,000 lawyers including those specializing in patent and trade secret law. The members represent a complete cross-section of clients, located in every part of the United States. Many of these members regularly counsel clients with regard to asserting, and defending against, patents and trade secret rights in all areas of controversy.

Trade secret protection, which applies only against persons who have obtained the secret information unlawfully or as a result of a confidential disclosure, has been widely considered for generations as clearly available under the common law and many state statutes for the period in which the owner is able to maintain secrecy. This protection was believed to extend to subject matter which falls within the statutory classes for which patents are available, without regard to the length of the period in which such trade secrets may have been commercially used. The Court of Appeals of the Sixth Circuit in the case at bar has adopted a contrary view and knowingly placed itself in direct conflict with other Circuits.

The American Bar Association seeks clarification of the law so that its members may properly advise their clients in both the Sixth and other Circuits.

In seeking permission to file a brief amicus curiae, we believe that we shall emphasize aspects of the questions before the Court which are different from those presented by the parties. For example, the issue between the parties arises out of contracts of prior employment. The basic issue of law, however, is much more far-reaching, impinging—for example— upon international licensing, treaties to which the United States is a party, and contracts for the supply of specialized goods of a highly technical nature. Further, the broad question of the relationship between trade secret protection and the patent statutes has ramifications of the greatest import to the public

generally, involving not only contract but tort and criminal law as well.

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BRIEF AMICUS CURIAE OF AMERICAN BAR ASSOCIATION IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

The opinion of the Sixth Circuit Court of Appeals in the case at bar, decided and filed May 10, 1973, held that (Pet. A25):

> "the Trade Secret Laws of the State of Ohio may not afford to the plaintiff in this case protection which the plaintiff could not obtain under the Patent Laws."

In so holding that Court explained that (*ibid.*):

> ". . . our analysis of the relationship between the Patent Laws of the United States and the Trade Secret Laws of the State of Ohio, as applied in this case, forces us to the conclusion that the field of protection afforded to this plaintiff by that Trade

> Secret Law has been preempted by the Patent Laws of the United States. . . ."

The Court said (*ibid.*):

> "We recognize that our holding in this case is in conflict with the previously cited decisions of other Circuits, *Servo Corp. of America* v. *General Electric Co.*, 337 F.2d 716 (4th Cir. 1964), cert. den. 383 U.S. 934 (1966), rehearing denied 384 U.S. 914 (1966); *Dekar Industries, Inc.* v. *Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), cert. den. 402 U.S. 945 (1971); *Water Services, Inc.* v. *Tesco Chemicals, Inc.*, 419 F.2d 163 (5th Cir. 1969); *Painton & Co.* v. *Bourns, Inc.*, 422 F.2d 216 (2nd Cir. 1971) . . .".

There can thus be no question as to the existence of conflict between the Circuits, as the petition for certiorari states. We wish to emphasize, however, the tremendous importance of this question to the business community of the nation and to the lawyers who must advise it, and the consequent need for prompt resolution of the issue by this Court.

The decision below has created a chaotic condition. The enforceability of literally thousands of contracts in the United States, contracts of the type entered into regularly by individuals and corporations throughout the country, is open to question. Indeed, many contracts of international character are equally affected.

The confusion inherent in the opinion of the Court of Appeals is illustrated by its statement:

> "Thus, we feel compelled to conclude that a state trade secret law which protects an inventor in the maintenance of a monopoly of a device which is an appropriate subject for patent under the United States Patent Laws is in conflict with the policies and purposes of those patent laws where the invention has

> been used commercially for more than one year. By such use the inventor has forfeited his right to a patent but by the use of the state trade secret law he is able to exclude competition and prevent disclosure, thus obtaining protection which he could not obtain under the laws of the United States."

What is the meaning of this important holding, the basis of the Sixth Circuit's admitted difference with the Courts of the 2nd, 4th, 5th and 9th Circuits? There was no state law before it which protected "the maintenance of a monopoly". Nor was there any state law before the Court which an inventor could use "to exclude competition" of a legal nature or to obtain "protection which he could not obtain under the laws of the United States". The right granted by the patent statutes permits the patent owner "to exclude others from making, using or selling the invention throughout the United States" for a stated period. (35 U.S.C. 154) This right to exclude extends to those who subsequently independently make the same invention. This broad right to exclude, granted by the patent statutes, is the consideration for the inventors disclosure of his invention to the public. No such broad right to exclude arises out of trade secret law.

The owner of a trade secret has the right to assert such ownership only against those who may surreptitously steal it or use it in breach of confidential relationship. It is well settled that there is no right under trade secret law to exclude any person who independently develops the same "secret", and it is also well settled that more than one person may simultaneously and independently be in possession of the same trade secret. Further, there are no rights whatsoever in a "trade secret" should the knowledge of it become public—for example from an inspection

of the article manufactured in accordance with the secret. (Callmann, *The Law of Unfair Competition and Trade Marks*, 2nd Ed. 1950 Vol. 2, Ch. 14, Sections 51-54; Ellis, Trade Secrets, 1953, Ch. 2; Restatement of Torts (1939) Section 757.)

The obscurity in the law interjected by the Court below saps vitality from much of the commercial law relating to technological exchanges. Within the United States there are hundreds of employment contracts entered into daily having "trade secrets" provisions. Companies regularly subcontract parts to suppliers who are given trade secrets enabling them to make these parts with the understanding that those trade secrets will be held in confidence; international contracts for such supply are common.[1] Of tremendous importance also, and critically affected by the decision below, is technology imported into the United States from foreign countries. The United States is party to the international treaties which protect against "competition contrary to honest practices in industrial or commercial matters" and acts "contrary to commercial good faith."[2] Trade secrets owned by foreign nationals

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[1] Volume 51, Number 3, Survey of Current Business, U.S. Department of Commerce, March 1971.

[2] Article 10 bis of the Paris Convention Act of Lisbon, 1958, 13 U.S.T. 1 reads in part: "(1) The countries of the Union are bound to assure to persons entitled to the benefit of the Union effective protection against unfair competition. (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition." Article 20 of the Pan American Convention, 46 Stat. 2907, reads in its entirety, "Every act or deed contrary to commercial good faith or to the normal and honorable development of industrial or business activities shall be considered as unfair competition and, therefore, unjust and prohibited."

are transmitted to the United States with the understanding, in many cases, that the secrecy will be maintained. Since the decision of the Court below would permit conduct prohibited in the law of many other countries, it is highly unlikely that foreign nationals would continue to disclose their secret technology to United States companies affected by that decision.

The opinion below not only would overturn long recognized principles of contract and tort law, but also would render even more difficult the enforcement of certain criminal statutes. For example, many states have criminal laws prohibiting the theft of trade secrets.[3] Laws such as those in New York and New Jersey make it a misdemeanor to betray or cause any one to betray the trade secret of a lawful owner. (Callmann, The Law of Unfair Competition and Trade Marks, 2nd Ed. 1950 Vol. 2 pg. 874).

While surely not the intent of the Court below, the effect of its decision is to encourage the theft of trade secrets. What trade secrets should be appropriate for deceitful and criminally inspired takers? For example, if the decision of the Court below is taken literally to mean that there are no protectable rights in trade secrets which are patentable (and which have been used over one year), then would it be a crime under the criminal statutes mentioned to steal trade secrets "obvious" to those skilled in the art (those not patentable) and yet be no crime to steal "non-obvious" trade secrets (those

[3] Arkansas, California, Colorado, Georgia, Illinois, Indiana, Maine, Massachusetts, Michigan, Minnesota, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Tennessee, and Wisconsin.

which are patentable)? Or, would it be a crime to steal a customer list and yet not be a crime to steal a basic industrial secret of tremendous commercial importance?

The uncertainty in these vitally important fields of law makes it clear that the matter should be settled at this time.[4] The conflict between the courts of appeals is not in doubt. It would be commercially intolerable for the four states of the Sixth Circuit to be governed by a different rule from the rest of the nation. Therefore, Amicus Curiae respectfully urges that the Supreme Court grant the writ of certiorari in this case and thereafter,

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[4] Although the recent decision of this Court in *Goldstein* v. *California*, 93 S.Ct. 2303 (June 18, 1973), appears to some extent to undermine the premise of the decision below, it did not decide the question here presented.

upon a full hearing of the case, instruct the courts and persons throughout the United States as to the proper scope of the trade secret law.

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Respondents.

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE

SCM Corporation, a diversified business enterprise engaged in a wide variety of research, development and manufacturing pursuits, respectfully moves this Court for leave to file the accompanying brief amicus curiae in opposition to the petition for writ of certiorari in this case. Petitioner, Kewanee Oil Co., has consented to the filing of this brief, while respondents have not consented, but have indicated they will not oppose this motion.[1]

Movant SCM is involved on a daily basis in full-scale research and development activities and in all phases of protection and utilization of the resultant technology, including without limitation acquisition and exploitation of patents and trade secrets. SCM alone, among the

[1] Copies of the letters reflecting this state of affairs are currently being lodged with the Clerk.

amici who have sought to file briefs incident the present petition, stands to be directly affected in its own business by the rule of law enunciated in the decision below.[2]

SCM's own direct practical experience with the benefits and burdens legitimately imposed by state trade secret law, as well as those consequent from the misapplication of that law to create a virtual underground "patent system" functioning to impede free access to unpatented and unpatentable technology uniquely qualifies it to make a pragmatic evaluation of the impact of the *limited* decision below. Moreover, as a litigant against Mobil Oil Corporation in Civil Action C73-751, filed July 18, 1973 before the District Court for the Northern District of Ohio, SCM has a vital concern that this Court shall not be importuned by the highly emotional appeals of petitioner and its amici into a needlessly hasty and arbitrary resolution of the many complex questions which go to make up the broad issue of whether federal patent law ever preempts the state law of trade secrets.

Quite significantly, the record in this case as now before this Court is essentially devoid of facts both with regard to the precise controversy which prompted the holding below and with regard to the economic and financial consequences other amici have glibly ascribed to the

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[2] The balance of the amici support the grant of the petition and —except for the Manufacturing Chemists Association, a trade association—are organizations whose views as expressed in their briefs have been formulated by the same coterie of individual patent lawyers who have in the past been active in importuning Congress to enact the so-called "Scott Amendments" designed to legislatively emasculate the thrust of this Court's holdings, *inter alia*, in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964), *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), and *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969). See in this regard Sections 261(b), (e) and (f), 271(f) and (g) and 301 of S. 643, 92nd Cong., 1st Sess. (1972)—and particularly Section 301.

limited rule of law enunciated in the decision below.[3] Even as it would be imprudent at this juncture to expand the holding below to fact situations not before the Sixth Circuit, it would be equally imprudent for this Court now to reverse that decision on the basis of economic considerations for which there is no evidence below and on which *de novo* evidence could not properly now be received even if offered.[4]

The attached brief demonstrates that the decision below is one of first impression which is not in direct conflict with any previous pronouncement of any other court and that its spirit is in harmony with controlling decisions of this Court. The brief further demonstrates overall that the time is not yet ripe for this Court to consider any issue of the sweep of that presented by the petition. It is respectfully requested that leave to file this brief be granted to the end that the Court may, in considering the petition, have the benefit of the view of one amicus that is a practical business enterprise.

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[3] SCM refers particularly to the five factors listed at page 3 of the "Motion for Leave to File Brief Amicus Curiae" of the Licensing Executives Society; see also the motion of the Manufacturing Chemists Association, p. 2; the motion of the Patent Law Association of Chicago, p. 2; the motion of the Association for the Advancement of Invention and Innovation, p. 2; and the motion of the New York Patent Law Association.

[4] It is stressed that the amicus briefs cited in the preceding footnote are addressed to emotion, not reason, and grounded upon lawyers' argument rather than evidentiarily admissible facts. Even if evidentiarily admissible facts *were* now offered, moreover, respondents would be entitled to full cross-examination and rebuttal and the result would be an extrajurisdictional proceeding.

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BRIEF AMICUS CURIAE OF SCM CORPORATION IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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I. INTEREST OF THE AMICUS CURIAE

SCM Corporation is a large and diversified business enterprise engaged at locations scattered throughout the United States in numerous research, development and manufacturing pursuits. Among these pursuits is research and development in, and manufacture of, paints, lacquers and related coating compositions. In connection with the latter endeavor, SCM is presently involved in litigation before the District Court for the Northern District of Ohio against Mobil Oil Corporation (Civil Action C 73-751, filed July 18, 1973) in which SCM seeks a declaration (a) of invalidity and unenforceability of certain patents and (b) of illegality and unenforceability of an associated patent and trade secret license.

Under the license Mobil seeks, *inter alia*, to collect royalties for SCM's manufacture of lacquers pursuant to SCM's own independently developed formulations, alleging them to be improvements on or modifications of the licensed, alleged trade secret, lacquer formulations which Mobil itself has not patented but has been commercially exploiting since at least 1957. The trade secret issues raised in this pending *SCM* v. *Mobil* litigation rest upon unique fact premises entirely different from those underlying either the questions decided in this case or those determined in *United States* v. *Greenwald*, No. 72-2117 (6 Cir., June 1, 1973).[1]

[1] Contrary to the assertions of the petitioner (Pet. 7, 14) and one of its amici, the American Patent Law Association (Br. 5), there is no conflict or inconsistency between the Sixth Circuit's decisions in this case and in the later *Greenwald* case. Rather, the two decisions are in harmony having due regard to the totally different fact situations from which each arose. Read together, they demonstrate that there *are* proper spheres within which state trade secret law and federal patent law *can and do* coexist (*cf.* Pet. 10), and serve to refute the contention of petitioner and its amici that the decision below tolled the death knell of all trade secret law in the Sixth Circuit.

To illustrate, the license agreement under which Mobil seeks to be paid provides that Mobil will not save SCM harmless from infringement of third party patents in connection with manufacture or sale of the alleged "trade secret" lacquers or improvements and modifications thereof and will waive royalty payments on any such formulation found by a court to infringe a valid patent of a third party *only* until such time as the patent in question shall be determined to be invalid, shall expire or shall be acquired by SCM or Mobil.[2] Thus, under the Mobil license, "That on which no patent could be obtained [*i.e.* Mobil's trade secret "property"] . . . [is] as effectively protected as if a patent had been issued". Mobil, a pri-

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[2] The offending provision to which reference is made is believed to appear in substance in similar Mobil license agreements with others relating to the same alleged "trade secrets". Its specific operative language is:

> "LICENSOR does not warrant the validity of LICENSOR's PATENTS and shall not be responsible for any claim against LICENSEE . . . , for any infringement of any Letters Patent owned by third parties by reason of or arising out of the use by LICENSEE or LICENSEE's purchasers of the LACQUERS corresponding to LACQUER FORMULAS and IMPROVEMENTS AND MODIFICATIONS: excepting should any action for infringement be finally determined by a court of competent jurisdiction against LICENSEE and should the adjudication be such that LICENSEE cannot make or sell a specified LACQUER within the scope of LACQUER FORMULAS or of IMPROVEMENTS AND MODIFICATIONS without infringing those Letters Patent for the infringement of which said action was instituted, then ROYALTY payments . . . shall cease on LACQUER of the specified kind . . . provided however, . . . that payment to LICENSOR of ROYALTIES on such LACQUER shall be resumed by LICENSEE whenever LICENSEE can and does again make and sell LACQUER of the specified kind without infringing those Letters Patent. . . . Among the presently contemplated reasons for which such non-infringing resumption might become possible are expiration or invalidation of the Letters Patent infringed or acquisition by LICENSOR or LICENSEE of title to or license under the Letters Patent infringed."

vate business, has managed to "function as its own patent office and impose its own law upon its licensees".[3]

SCM is entitled to its day in court at the trial and appellate levels, in the context of the unique facts of its pending case, on the specific question of whether the patent laws foreclose the challenged Mobil activities. If, however, petitioner and its amici succeed in expanding the scope of *this* case beyond the limits of its own factual compass so as to embrace every complex aspect of the interface between patent and trade secret law, SCM and others with particular trade secret problems may well be foreclosed. Particularly so, since the obvious thrust of the petition and the amicus briefs is to stampede this Court, in an atmosphere of high emotion, into a hasty and ill-considered pronouncement—rendered in the absence of supporting facts[4]—that state trade secret law

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[3] The quotations are from the opinion of Mr. Justice Douglas speaking for the Court in *Mercoid* v. *Mid-Continent Investment Co.*, 320 U.S. 661, 667 (1944). The same evil is clearly recognized in the separate partially concurring opinion of Mr. Justice Black, in which Mr. Justice Douglas and Mr. Chief Justice Warren joined, in *Lear* v. *Adkins*, 395 U.S. 653, 677 (1969), as follows:

> ". . . One who makes a discovery may, of course, keep it secret if he wishes, but private arrangements under which self-styled 'inventors' do not keep their discoveries secret, but rather disclose them, in return for contractual payments, run counter to the plan of our patent laws, which tightly regulate the kind of inventions that may be protected and the manner in which they may be protected. The national policy expressed in the patent laws, favoring free competition and narrowly limiting monopoly, cannot be frustrated by private agreements among individuals with or without the approval of the State."

[4] The paucity of facts in the record is well illustrated by the circumstance that even the opinion and supporting fact findings of the district court are not before this Court except for the few selected fact findings reproduced out of context in the appendix to respondents' brief.

Petitioner offers the excuse that "No question of fact is raised by this petition" (Pet. 5, note 2) in justification of its request for a broad ruling absent a supporting factual record. Petitioner asserts

and federal patent law can under no circumstances conflict, and hence that the federal law may never preempt the state law.

SCM believes that in the final analysis the interest of the business community will be best served and technological advance best fostered if reason prevails in this case, with the decision below realistically viewed for what it is—an earnest effort to arrive at creative compromise between competing demands of patent and trade secret law in the context of a specific and limited fact situation. As a successful business enterprise daily concerned with the practical pursuit, acquisition, development, protection and dissemination of technology, SCM is convinced that the decision below, if left to stand, will have no adverse effect upon any legitimate activity within those fields and will encourage a needed case-by-case evolution in the lower courts of factually meaningful criteria constructively defining the proper spheres of both patents and trade secrets.

II. REASONS WHY THE WRIT SHOULD BE DENIED

Denial of the writ is urged because

1. The broad question asserted by the petition is not raised by the record, was not decided below and is beyond this Court's jurisdiction to determine at this juncture.

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further that "the facts and conclusions of the District Court are summarized in the Court of Appeals decision" (Pet. 2) but significantly omits from its "statement" (Pet. 3-5) the *salient facts* upon which the decision below narrowly rests, demonstrating the subject matter sought to be protected in trade secret guise to be barred from patent protection under 35 U.S.C. 102(b) and hence necessarily within the public domain. See also R. Br. 2-5 which indicates that at least some of the alleged trade secret subject matter was disclosed in *expired* patents.

2. The decision below is not in direct conflict with the law of any other circuit and is consistent with and responsive to controlling precedent enunciated by this Court.

3. The state law of trade secrets has no legitimate purpose to encourage investment in technological research and development and may not be construed liberally in furtherance of such a purpose.

III. ARGUMENT

1. The "Question Presented" Is Not In Issue

Both petitioner and its amici urge here, as petitioner did below, that this case should be utilized as a vehicle for resolving, on the broadest possible base, "whether the enforcement of any and all state trade secret laws conflict with the policies of the United States Patent Laws". (Pet. App. A6). But as the court below so aptly stated, the issue "[t]hus framed . . . [is] too broad for . . . consideration in this case" (Pet. App. A6) which rests upon its own peculiar and *limited* facts. In short—as the Sixth Circuit recognized—this case does *not* present a record appropriate to serve as the foundation for a review of every conceivable aspect of the interface between state trade secret law and the federal patent laws. As in *Tyrrell* v. *District of Columbia*, 243 U.S. 1 (1917), the broad question urged in the amicus brief "was not before the lower court and would not be open for . . . consideration . . ." in this Court.[5]

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[5] No doubt because of the impermissible sweep of the question presented in the petition, the Patent Law Association of Chicago and the Manufacturing Chemists Association as amici curiae have formulated alternative questions of their own. These questions, however, are—equally with that raised by the petitioner—unjustified by the record below and hence not proper for consideration by this Court at this time.

More specifically, question 2 presented by the Patent Law Association of Chicago (Br. 3) is really only a reworded version of the broad question framed by the petitioner, while question 1 rests upon

The question posed in the petition is even broader than the one on which this Court reserved ruling, in order to permit "fully focused [factual] inquiry", especially by state courts, in *Lear* v. *Adkins*, 395 U.S. 653, 675 (1969). Thus in *Lear* this Court concluded that it "should not now attempt to define in even a limited way the extent, *if any*,[6] to which the States may properly act to enforce the contractual rights of inventors of unpatented secret ideas". Petitioner now asks the Court to decide summarily, without benefit of any meaningful factual record, whether the states are free in all cases to

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two erroneous premises—*i.e.*, (1) that there is a "conflict" in *decision* (rather than just in principle) with decisions of other courts, and (2) that the decision below destroyed the "continuing viability of trade secrets . . ." notwithstanding the clear contrary proof supplied by the Sixth Circuit's own later *Greenwald* decision *supra*, n. 1 p. 1.

The three questions advanced in the brief of the Manufacturing Chemists Association (p. 3) are also not properly subsumed in the decision of the court below. Thus question 1 is essentially another reworded version of the all-encompassing question presented by petitioner and rests upon the false premise that the decision below has destroyed *all* state trade secret law. Question 2 rests upon at least two false premises—*to wit:* that the defendants in this case obtained access to the subject matter sought to be protected "by improper means" and that such information is still "patentable", albeit unpatented. *In fact*, the Court of Appeals decision shows that the individual defendants originally obtained the information *properly* as an incident to their employment by Kewanee and that the subject matter involved has since been abandoned to the public and is hence *no longer* patentable, though it may once have been so. Question 3 again rests upon the false premise that the Sixth Circuit held the federal patent law to preempt all state trade secret law and as such is far broader than the record permits. In addition, all three questions are misleading in referring to "secret technological information" and "secret information" because the court below held that, as a matter of law under 35 U.S.C. 102(b), the information in question became a part of the public domain—or as the respondents put it "the prior art" (R.Br. 2)—once it had been in public use or on sale for more than one year prior to the filing of any patent application.

[6] Unless otherwise stated, all emphasis in quotations is added emphasis.

enforce not only contractual rights, but equitable rights based upon alleged confidential relationships, of *both* inventors and noninventor owners of *un*patented secret ideas. No indication is given of any change in circumstances since the 1969 *Lear* decision that should impel the Court today toward an arbitrary disposition, in a virtual vacuum of supporting facts, of a broader question than the one on which restraint was recognized to be appropriate four short years ago.

2. There is No Direct Conflict With Decisions of Other Courts

Importantly the Sixth Circuit did *not* decide that patent and trade secret law cannot coexist, nor did it hold that there is mutual exclusivity between the two at every possible interface.[7] Moreover, the decision below did not purport to hold that all manner of state trade secret law is preempted by the federal patent laws.[8]

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[7] Irrefutable evidence that this is so exists in the Sixth Circuit's subsequent and correct decision in *United States* v. *Greenwald*, *supra*, n. 1, p. 1, protecting the right of an owner of secret chemical formulae, as to which there was no hint or implication of abandonment to the public, against their theft and consequent unjust enrichment of the thief.

[8] For example, none of the points numbered 1, 2, 3, 4, or 6 at pp. 4-6 of the Brief Amicus of the American Patent Law Association purports to have been raised or decided below—with the result that the Association's apprehensions as to possible future rulings in cases properly raising those issues are, to say the least, premature.

Nor is there in the decision below any conflict with or abrogation of, any Congressionally enacted statute purporting to exempt legitimate trade secrets from arbitrary disclosure by federal employees, appropriation without compensation, theft or ordinary income tax treatment notwithstanding the fears expressed by petitioner (Pet. 12-14) and its amici, the Chicago Patent Law Association (Br. 7-9), the Manufacturing Chemists Association (Br. 10, especially note 11), the American Patent Law Association (Br. 4-5, especially points 1, 2 and 4), the Licensing Executives Society (Br. 2, especially note 3) and the New York Patent Law Association (Br. 3).

[Footnote continued on page 8]

The single narrow holding below was that "a state trade secret law which protects an inventor in the maintenance of a monopoly of a device which is an appropriate subject for patent under the United States Patent Laws is in conflict with the policies and purposes of those patent laws where the invention has been used commercially for more than one year."[9] (Pet. A24-25). In other words, an inventor cannot both convey an article to the public by public use or sale for more than one year so as to bar issuance of a patent on it under federal law [35 U.S.C. 102(b)] and at the same time maintain a private monopoly against one segment of the same public in the guise of trade secret law.[10]

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[8] [Continued]

Nor did the decision below purport to affect in any way alleged trade secrets in nontechnological business and commercial information which are not "discoveries" in "science and useful arts" within the meaning of the Constitutional patent clause and could not in any event be patented under 35 U.S.C. 101, such as the plan for creating, promoting, financing and selling contracts for prepaid funeral services upheld in *Clark* v. *Bunker*, 453 F.2d 1006 (9 Cir. 1972), or the confidential quotations on grain futures held protectable by this Court in *Board of Trade* v. *Christie Grain and Stock Co.*, 198 U.S. 236 (1905).

Similarly, potentially patentable alleged trade secret subject matter *not* abandoned to the public under 35 U.S.C. 102(b) was neither in issue nor commented upon below.

[9] The argument of the American Patent Law Association as amicus curiae (Br. p. 3) that "the less patentable the secret, the more protectable it became in the eyes of the Court of Appeals below" is a semantic play upon the words "appropriate subject for patent under the United States Patent Laws" as used by the Sixth Circuit. Clearly and in context, the decision below did not intend to condition the availability of trade secret protection upon the patentable *quality* of the involved subject matter. Rather, it was the intention of the Sixth Circuit to limit the area of possible trade secret-patent conflict to subject matter within the purview of the patent laws.

[10] The court below did not do so, but could have justified its holding also on the basis of Fifth and Fourteenth Amendment guarantees, to which the patent clause is subservient. These guarantees "embrace the right of the citizen to be free in the employment of all his faculties; to be free to use them in all lawful

No case cited by the Sixth Circuit (Pet. A25) or the petitioner as conflicting (Pet. 6) has examined or addressed this particular facet of the patent-trade secret interface, nor does it appear that any such case has rested upon facts similar to those which confronted the court below.[11]

In short, the "conflict" acknowledged in the decision below is a conflict in *principle*,[12] other courts having ear-

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ways. . . ." *Allgeyer* v. *Louisiana*, 165 U.S. 578, 589 (1887); *Greene* v. *McElroy*, 360 U.S. 474, 492 (1959); *United States* v. *Robel*, 389 U.S. 258, 265 (1967). These rights would be seriously compromised if, once information irretrievably passed into the public domain, those segments of the public best qualified to utilize it in their lawful calling for the benefit of all (such as the individual defendants here) were disabled to do so on grounds of prior private relationship.

[11] Specifically, in *Servo Corp. of America* v. *General Electric Co.*, 337 F.2d 716 (4 Cir. 1964), there is no indication that the alleged trade secret subject matter had been publicly used or sold for more than one year and hence abandoned to the public, at the time of the alleged misappropriation. Nor is there any indication that the question of the effect of public use or sale for more than one year was considered in either *Water Services Inc.* v. *Tesco Chemicals Inc.*, 410 F.2d 163 (5 Cir. 1969), or *Dekar Industries Inc.* v. *Bissett-Berman Corp.*, 434 F.2d 1304 (9 Cir. 1970). Moreover, both *Servo* and *Water Services* were decided before this Court's charge to the lower courts in *Lear* quoted *supra* p. 6, to scrutinize with care all facts purportedly justifying private contractual protection of *unpatented* subject matter and determine whether any such protection is permissible.

The final decision cited as conflicting by petitioner—*Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216 (2 Cir. 1971)—involved, as respondents have pointed out (R.Br. 5), a so-called "technical service agreement". The court did not discuss the question of whether information within the scope of the agreement had previously been abandoned to the public.

[12] To put it another way, the "conflict" in decision exists only as to the sweeping issue framed by petitioners' question which the court below refused to consider as unduly broad on the record presented, *supra*, p. 5. Once the question is properly confined to the issue *decided* by the Sixth Circuit (See R.Br. 2) there is no "con-

lier held unqualifiedly that the doctrine of federal preemption by the patent laws of inconsistent state law articulated in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964), and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), and squarely reaffirmed on June 18, 1973 in *Goldstein* v. *California*, —— U.S. ——, 37 L.Ed. 2d 163, 182, does not bar the recognition of state trade secret law based on confidential relationships. The decision below does *not* challenge the generality of this principle, but carves out an exception in the limited area wherein the alleged trade secret subject matter is cognizable under the patent laws but has been irrevocably conveyed to the public pursuant to 35 U.S.C. 102(b).

Properly viewed, the decision below is an early effort to reconcile the sometimes competing demands of federal patent law with state contract and trade secret law in a manner responsive to this Court's admonitions in *Lear, supra*, p. 6 (see also 395 U.S. 653 at 668). The decision has proceeded, moreover, strictly in accord with this Court's own consistent refusal to recognize or enforce private property rights in subject matter already within the public domain.

Thus, this Court has repeatedly repudiated efforts to recapture any portion of the monopoly of an expired patent. *Singer Mfg. Co.* v. *June Mfg. Co.*, 163 U.S. 169 (1896), *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 500, 517 (1917), *Kellogg Co.* v. *National Biscuit Co.*, 305 U.S. 111 (1938), *Scott Paper Co.*

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flict" in decision and the specific issue decided below is one of first impression not previously resolved in any court.

There is, of course, no "conflict" with any decision of this Court as alleged in the Brief Amicus of the Chicago Patent Law Association (pp. 7-9) because the Sixth Circuit continues to recognize "the common law concept of trade secrets" (*id.* at 7) notwithstanding the inapplicability of that law in this case. See note 1, *supra*, p. 1.

v. *Marcalus Mfg. Co.*, 326 U.S. 249 (1945), *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964). In *Scott Paper Co.*, this Court specifically held "that the patent laws preclude the patentee of an expired patent *and all others* . . . from recapturing any part of the former patent monopoly" (326 U.S. 249, 256) noting that the right to use the subject matter of an expired patent is "no longer subject to private barter, sale or waiver" on *any* basis, voluntary or otherwise (*ibid*). And as the Sixth Circuit recognized, this Court in *Sears, Roebuck, supra*, held that subject matter disclosed in an *invalid* patent "is in the public domain and may be made and sold by whoever chooses to do so" (376 U.S. 225, 231). The court below, having recognized that public use or sale for more than one year prior to the date of an application for patent necessarily *also* transfers an article into the public domain, properly refused to protect against copying on the basis of the "trade secret" shibboleth.

3. The Decision Below Will Not Disrupt Legitimate Business Relationships Whether Or Not Dependent On Trade Secrets

In an apparent effort to make the decision below appear aberrant, petitioner and its amici have neglected to mention that at least one court in addition to the court below has squarely rejected the underlying theme, first rejected by the Constitutional framers,[13] and consistently

[13] Significantly history teaches that the Constitutional Convention squarely rejected a proposed constitutional provision giving Congress power "to establish public institutions, rewards and immunities for the promotion of agriculture, commerce, trade and manufacture". See Story, "Commentaries on the Constitution of the United States, Vol. 3, § 1150 (1833); Warren, "The Making of the Constitution", 625-672 (1928).

In view of the rejection of this proposed constitutional provision, the adoption of the *limited* constitutional patent power and the adoption of the "liberty" and "property" concepts of the Fifth and Fourteenth Amendments, *supra*, note 10, p. 8, presumptions

rejected by this Court in every guise in which it since has been advanced, that *any* investment of time and money in technological research and development should be rewarded with some type of enforceable property right even though no valid patent may be obtained.[14]

Thus in *Winston Research Corp.* v. *Minnesota Mining & Mfg. Co.*, 350 F.2d 134, 138 (9 Cir. 1965), the following appears:

> "An additional argument is sometimes made in favor of protecting confidential but unpatented matter from disclosure, but we think the rationale of Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 84 S.Ct. 784, 11 L.Ed.2d 661 (1964), precludes us from giving it weight. We refer to the contention that the results of research and development must be accorded reasonable protection from disclosure or private investment in such activities will be inhibited and progress will be slowed, with consequent loss to both employers and public. The patent laws, it is argued, do not afford adequate protection because excessive time is required to process a patent application, and because a high standard of invention must be met to obtain a patent, or at least to sustain a patent once issued. However, *we are satisfied that the rationale of Sears, Roebuck & Co.* v. *Stiffel Co., 376 U.S. 225, 84 S.Ct. 784, supra, precludes judicial recognition of a legally protectible interest in the secrecy of industrial information as such*, as distinguished from an interest in the integrity of confidential employer-employee relationships."

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of governmental power or intent to promote research and development activities by granting or enforcing even limited commercial monopoly power obviously cannot be lightly inferred.

[14] This point of view is particularly urged in the briefs amicus curiae of the Licensing Executives Society (p. 6), the Manufacturing Chemists Association (especially at pp. 6-8) and the Association for the Advancement of Invention and Innovation (pp. 3-6).

In a footnote to the quoted passage the same court observed *inter alia* that

> "In Sears, Roebuck & Co. v. Stiffel Co. the Supreme Court held that the federal patent statutes reflect a congressional determination that 'the Progress of Science and Useful Arts' (U.S. Const. Art. I, § 8, cl. 8), is best served by limiting the right to exclude others from new developments to 'genuine invention,' and then for a period no longer than fourteen or seventeen years, and that the states may not 'under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws.' 376 U.S. at 231, 84 S. Ct. at 789.
>
> "The federal patent statutes require full disclosure of the invention as a condition to the grant of monopoly so that at the end of the period of monopoly the development may be freely available to all. *Thus, the federal patent statutes would seem to reflect a congressional determination that any individual or social interests which may be served by secrecy are outweighed by those served by full disclosure. And it would seem to follow, under the rationale of Sears, Roebuck & Co.* v. *Stiffel Co., that state law providing protection for trade secrets cannot be applied to serve a premise that the balance of interests favors secrecy. Thus, state law protecting trade secrets cannot be based 'on a policy of rewarding or otherwise encouraging the development of secret processes or devices.* The protection is merely against breach of faith and reprehensible means of learning another's secret.' Restatement, Torts § 757, comment b."

The arguments that trade secrets should be liberally recognized and enforced as property rights in the interest of promoting investment in research and development and stabilizing existing nonconfidential, arms' length business relationships—such as technology licensing ar-

rangements among competitors—are plainly spurious. In this case, as in *Lear*, there is no reason to suppose that the decision below "is likely to undermine any existing *legitimate* business relationships" (395 U.S. at 675 n.19), whether or not confidential. Moreover, the precise effect upon challenged business relationships can rationally be evaluated only in the context of the special relevant facts of each individual relationship, *not* categorically in the climate of emotional overstatement created by the petition and related amicus briefs.

IV. CONCLUSION

The writ should be denied.

Respectfully submitted,

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In the Supreme Court of the United States

October Term 1973

No. 73-187

KEWANEE OIL COMPANY,

Petitioner,

vs.

BICRON CORPORATION, LLOYD H. HAMNER, JULIOUS M. MENEFEE, WILLIAM P. NOVAK, RICHARD W. SPURNEY and HARRY SUSCHEK,

Respondents.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

REPLY BRIEF FOR THE PETITIONER

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REPLY BRIEF FOR THE PETITIONER

The opinion of the Sixth Circuit has now been reported at 478 F.2d 1074 (1973).

There are three points in the Brief in Opposition to which petitioner wishes to make a brief response.

1. In their Counterstatement of the Case, respondents quote (Br. in Opp. 3) finding 109 of the district court. This might leave the impression that the district court found that the respondents had not violated any fiduciary duty owed to the petitioner.

Finding 109, however, relates only to "going into competition" with the petitioner. This is a question quite distinct from the use of petitioner's trade secrets by the respondents, in violation both of contract and of fiduciary duty. As to this, the court of appeals is clear. It said (Pet. App. A 3):

". . . There can be no question on this record but what these individual defendants appropriated, to the benefit of Bicron, Harshaw's secrets, processes, procedures and manufactoring techniques."

2. Respondents assert that "There Is No 'Real and Embarrassing' Conflict." (Br. in Opp. 5.) Yet the court of appeals twice recognized in its opinion that its decision resulted in a conflict of decisions. (Pet. App. A 8, A 25.) The conflict is present and real. That it is also embarrassing is evidenced by the several briefs sought to be filed by *amici* in support of the petition. As long as the conflict is outstanding, the law of this country affecting an important section of the economy will be uncertain and confused. In the interest of all concerned, the conflict should be resolved now.

3. Finally, the respondents contend that "The Rule of the Court Below . . . Only Redresses the Balance Between Patents, Trade Secrets and the Public Interest." (Br. in Opp. 8.) On the contrary, the effect of the judgment below is to destroy the common law of trade secrets as it has heretofore existed and been understood. If the patent law should now be found to preempt trade secret law, after a year, if the trade secret is eventually determined to be one which would have been patentable, trade secret law as it is and has been known will be reduced to an unreliable shadow, and time-honored principles of responsibility based on contract and on fiduciary relations will wither away. In the absence of further word from Congress, this is not a sound way to strike "a fairer balance between the interests of those involved in this area of the law." (Br. in Opp. 9.)

The Brief Amicus Curiae filed by SCM Corporation asserts (p. 6) that petitioner asks the Court to decide the case "without benefit of any meaningful factual record"

and (p. 7) "in a virtual vacuum of supporting facts."

This case is not an abstract case. It is not devoid of facts. It was tried over an extended period of time in the district court. On the basis of the trial, the district court made 106 Findings of Fact. Because these Findings involved trade secrets, the district court entered a protective order and this was not altered by the court of appeals. If this Court concludes that the statement of facts in the opinion of the court of appeals is not sufficient and that this Court should examine the Findings themselves, they will, of course, be supplied, with the request that the Court take appropriate steps to protect the secrets involved against public disclosure.

The petitioner here does not seek a monopoly, but only protection against respondents who are bound by a contractual and fiduciary relationship. The SCM Amicus Brief acknowledges (p. 9) that there "is a conflict in *principle*." The exception to this principle, to which it refers (p. 10) would emasculate the law of trade secrets as it has up to now been applied and understood.

The petition for certiorari should be granted.

Respectfully submitted,

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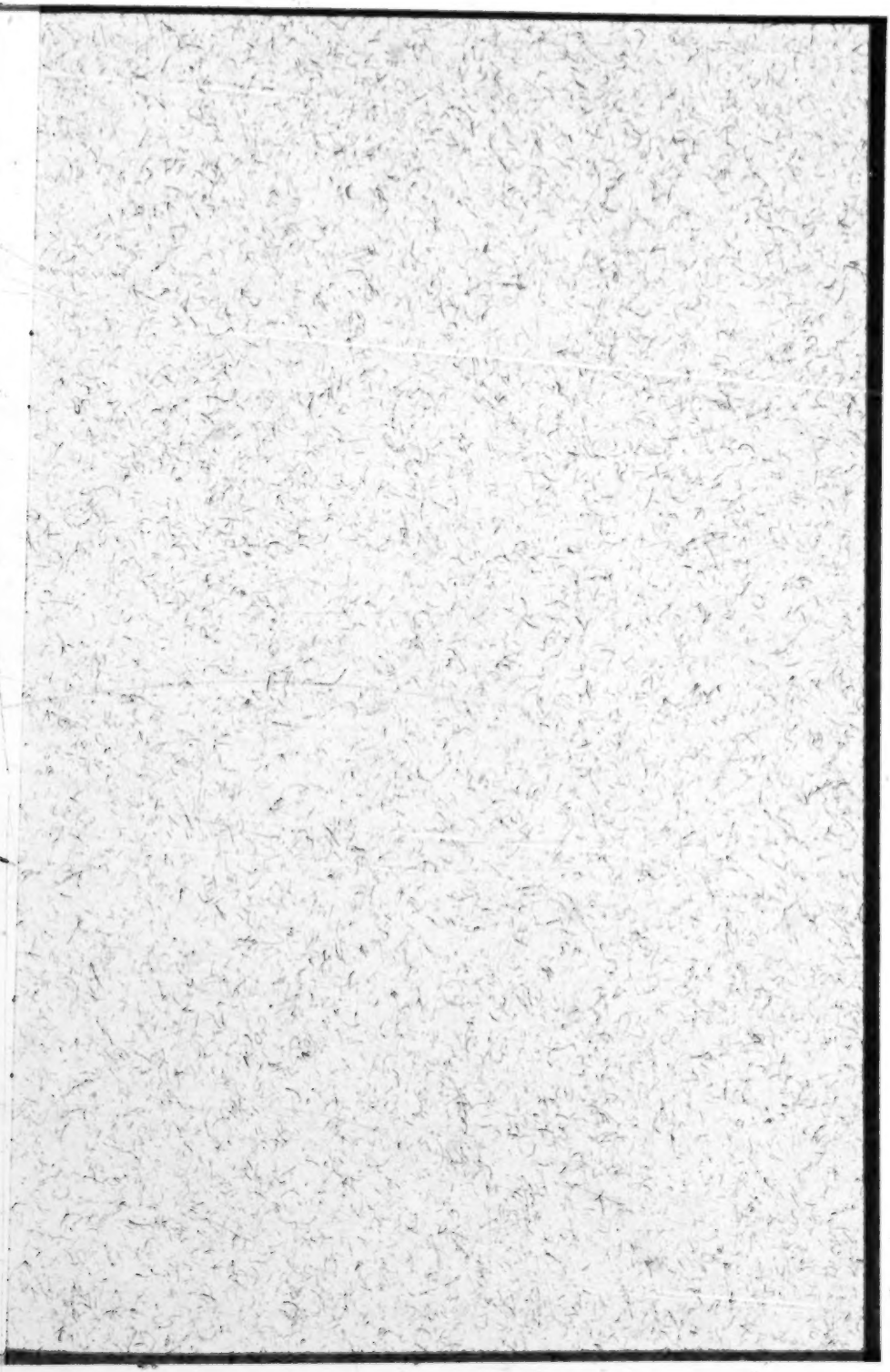

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY, *Plaintiff-Petitioner*

v.

BICRON CORPORATION, *et al.*, *Defendants-Respondents*

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

MOTION OF CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA FOR LEAVE TO FILE BRIEF AMICUS CURIAE
and
BRIEF FOR AMICUS CURIAE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

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On Petition for a Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

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MOTION OF CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA FOR LEAVE TO FILE A BRIEF AMICUS CURIAE

The Chamber of Commerce of the United States of America respectfully moves for leave to file a brief Amicus Curiae in support of issuance of a writ of certiorari. A copy of the brief is submitted herewith.

Petitioner, Kewanee Oil Company, through its counsel, has consented to the Chamber's participation herein as Amicus Curiae. Respondents, Bicron Corporation, et al, through their counsel, have refused to consent to the Chamber's participation.

The Chamber of Commerce of the United States of America is a national membership association of over thirty-six hundred (3,600) state and local chambers of commerce and trade associations with an underlying membership of over five million (5,000,000) business firms and individuals in both metropolitan and rural areas. The Chamber's direct business memberships number in excess of forty-six thousand (46,000).

The Sixth Circuit Court of Appeals has held that the Constitution of the United States and the Federal Patent Laws preempt the State of Ohio's right to protect trade secrets from wrongful appropriation by others, where the trade secret is an appropriate subject for a patent and has been used commercially for more than one year.

The U. S. Chamber of Commerce has a vital interest in this case. Its members, many of whom are located in the Sixth Circuit, have relied on and wish to continue heavily to rely on the protection, until recently, universally afforded trade secrets at common law and under State laws. Unless reversed, the decision of the Sixth Circuit will destroy trade secrets, including business and technical know-how, which are valuable and essential to the competitive position of many of its members in both domestic and international markets. These trade secrets which have been developed at great expense will become available to others for nothing.

The U. S. Chamber of Commerce seeks leave to file a brief Amicus Curiae in support of the petition for certiorari to bring before this Court facts on the adverse effect the Sixth Circuit decision will have on the growth of technology in the United States, on

U. S. industry generally, and on the economic well-being of the nation. Further, the Chamber wishes to emphasize the important public interest and policy reasons why the decision should be reviewed by this Court, and to urge reasons why, as a matter of law, the petition for a writ of certiorari should be granted.

The U. S. Chamber of Commerce respectfully requests leave to file, as Amicus Curiae, the accompanying brief urging issuance of a writ of certiorari.

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BRIEF FOR AMICUS CURIAE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

INTRODUCTION

The Chamber of Commerce of the United States of America urges the issuance of the writ of certiorari as sought by Kewanee Oil Company. That petition should be granted to resolve the vital constitutional issue created by the decision of the Sixth Circuit Court of Appeals in *Kewanee Oil Co.* v. *Bicron Corp.*, Nos. 71-1041 and 71-1042, decided May 10, 1973. This decision held that the United States Constitution and the Federal Patent Laws preempt the State Trade Secret Law of Ohio to the extent that this law provides protection to a trade secret which is "an appropriate subject for a patent" and "has been used commerically for more than one year."

The implications of the decision are even broader and could easily lead to the conclusion that all trade secret law is preempted. Moreover, the decision is erroneous and directly conflicts with holdings of the Second, Fourth, Fifth, and Ninth Circuits, as well as other court decisions (including those of this Court), acts of Congress, and treaties of the United States.

INTEREST OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

The Chamber of Commerce of the United States of America is a national membership association, including over thirty-six hundred (3,600) local and state chambers of commerce and trade associations. These state and local chambers have underlying membership of over five million (5,000,000) business firms and individuals in both metropolitan and rural areas. The Chamber's direct business memberships number in excess of forty-six thousand (46,000).

Many members of the Chamber rely heavily on the protection of trade secret laws, both under statute and at common law. Unless the *Kewanee* decision is reversed, these members stand to lose their valuable trade secrets, including business and technical know-how, and, in consequence, to suffer severe financial loss and erosion of their competitive strength, not only in the United States, but in world markets. These trade secrets which have been developed at great expense will become available to others for nothing.

QUESTIONS PRESENTED

1. Has the power granted to Congress under Article I, Section 8, Clause 8 of the Constitution and the enactment of the Federal Patent Laws destroyed the common law of trade secrets and prohibited the States

from giving protection to trade secrets with the resulting loss of a great national asset embodied in the trade secrets and know-how developed in this country?

2. Should trade secrets be protectible as property rights at common law and under State laws, as held by the Second, Fourth, Fifth, and Ninth Circuits, or should the property rights in trade secrets be obliterated, as held by the Sixth Circuit?

REASONS FOR GRANTING THE WRIT

I. THERE IS A VITAL PUBLIC INTEREST IN RESOLVING THE DIRECT CONFLICT BETWEEN THE SIXTH CIRCUIT AND FOUR OTHER CIRCUITS

The economy of this nation is obviously of vital public interest, and our commitment of resources to research and development (R&D) will be a major determinant of our future economic well-being. The Sixth Circuit opinion could diminish R&D commitments either: (1) by denying adequate protection to the expensive fruits of R&D, or (2) by raising baffling uncertainties as to the nature of protection available for the results of R&D. Thus the *Kewanee* decision poses a critically significant question "involving principles the settlement of which are of importance to the public as distinguished from that of the parties".[1]

While precise measures are perhaps lacking, it is generally accepted that there is a relationship between the economic strength of a nation and its investment in R&D. The National Science Foundation lends clear support to this premise in its statement:

> "Although what we know about the relationship between R&D and economic growth/productivity

[1] Layne & Bowler Corp. v. Western Well Works, Inc., 261 U.S. 387, (1923). See also Rice v. Sioux City Cemetery, Inc., 349 U.S. 70, (1954).

is limited, all available evidence indicates that R&D is an important contributor to economic growth and productivity. Research to date seeking to measure this relationship (at the level of the firm, the industry, and the whole economy) points in a single direction — the contribution of R&D to economic growth/productivity is positive, significant and high."[2]

II. THIS DECISION COMES AT A TIME OF MOUNTING CONCERN FOR THE ECONOMIC WELL-BEING OF THE UNITED STATES AS AN EFFECTIVE COMPETITOR IN WORLD MARKETS

The nation's concern in recent years over its "economic growth/productivity" has continually focused on our declining position in international trade. While our trade deficit has been reduced from $6.3 billion in 1972 to an annual rate of $1.6 billion for the first six months of 1973[3], it is obvious that we can no longer rely upon our positive balance of trade position which endured until 1970.

Our competitive stance in world markets has been eroded over the years. The U.S. share of the world gross national product has declined from 39.3% in 1950 to 30.2% in 1970.[4] At the same time, other countries have made dramatic advances. Japan's share has grown from 1.5% to 6.2%, roughly a fourfold increase.[5] The EEC's share has grown from 11.1% to 14.85%[6]

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[2] Research and Development and Economic Growth/Productivity, National Science Foundation, NSF 72-303, 1971, p. 3.

[3] Commerce Today, August 20, 1973, p. 8.

[4] The United States in The Changing World Economy, Peter G. Peterson, 1971, Chart I.

[5] Ibid.

[6] Ibid.

A positive aspect of this otherwise discouraging picture, however, is our increased trade over this twenty year period in "technology-intensive" manufactured products — the fruits of R&D. Our *exports* of such products rose from $6.6 billion in 1951 to $22.6 billion in 1970.[7] By contrast *exports* of "non-technology intensive" products rose from $3.7 billion in 1951 to only $6.8 billion in 1970.[8]

By 1970 our *imports* of "non-technology-intensive" products had risen to $12.9 billion,[9] and our *imports* of "technology-intensive" products to $13.0 billion.[10] In 1970 we thus experienced a *favorable* trade balance of about $10 billion in *"technology-intensive"* products. By contrast, however, we simultaneously suffered a trade *deficit* of about $6 billion in *"non-technology-intensive"* products. It was thus our very healthy trade position in "technology-intensive" products that saved us from the embarrassing economic effects of the deplorable degradation of our trade balance in "non-technology-intensive" products.

It appears, however, that in recent years "the United States has been losing its technological leadership in the production and export" of such technology-intensive products. This fact was recognized in the Department of Commerce study of the "Policy Aspects of Foreign Investment by U. S. Multinational Corporations":

> "Within the Department of Commerce, Dr. Michael Boretsky has investigated this area in

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[7] Id. at Chart 21.

[8] Id. at Chart 20.

[9] Ibid.

[10] Id. at Chart 21.

detail. Through an analysis covering, *inter alia,* United States and foreign trade trends, productivity and R&D expenditures, Boretsky has produced evidence which tends to support the thesis that the United States depends largely upon the export of high technology products for a favorable balance of trade. Boretsky argues that for the past several years the United States has been losing its technological leadership in the production and export of such products, and that if this trend is not reversed, the United States will face a continually worsening balance of payments position. His writings attribute this loss in competitiveness to a number of factors, including: increased intensity of foreign R&D efforts, slower rates of productivity increase by U.S. firms, the ability of foreign countries to make up considerable technological ground by the adoption of "old technology", exchange rates which put the United States at an unnecessary price disadvantage, and the ability of foreign countries to purchase and assimilate relatively new technologies from innovator countries."[11]

Thus, in an era when we are extremely dependent on our technological leadership and this leadership is being challenged, it is clearly counter-productive for the U.S. to relax the legal mechanisms which protect and stimulate our technological growth. Although the Commerce study recognizes that the erosion of our trade balance has in part occurred as a result of the transfer of technology to lesser developed countries, it is far better that such transfers should occur through

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[11] Policy Aspects of Foreign Investment by U.S. Multinational Corporations, U.S. Department of Commerce, Bureau of International Commerce, Office of International Investment, January 1972, p. 31.

controlled contractual arrangements rather than through breaches of trust and confidence.

The latter route denies to the nation the positive benefit to its international trade position that accrues from royalties paid to its citizens for rights to technological advances, developments, and discoveries. These rights include not only those embodied in patents, trademarks and copyrights, but also those embraced in trade secrets and business and technical know-how.

The benefit to U.S. foreign trade through export of these rights has grown from about $840 million in 1960 to about $3.0 billion in 1972. By contrast, the U. S. spent only about $276 million on imports of such rights in 1972. The international export sales of technology rights by the U. S. in 1972 thus produced the remarkably favorable trade balance of $2.7 billion.[12]

From the foregoing, it is clear beyond peradventure that the vitality of R&D activities in the United States, together with the protective support given to them by our legal system has sustained our international trade position in world markets over a period in which our trade balance and productivity were decreasing in low technology areas. It is also now common knowledge that competition against the United States is escalating even in high technology areas.

Put in the most simple and direct terms, this decision, if allowed to stand, is an invitation to foreign competitors of U.S. companies to come in and appropriate valuable trade secret and know-how technology from the U.S. owners with impunity. In a

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[12] Survey of Current Business, United States Department of Commerce, Vol. 53, No. 6, June, 1973, p. 28, lines 7, 10, 21, and 24.

somewhat less drastic view, at the least, U.S. trade secret and know-how technology, in the eyes of foreign licensees, must be devalued by a quantum that represents the effect of its having no value in a large industrial portion of the U.S. (the Sixth Circuit), even though it may be protectible elsewhere in the U.S. for the moment.

III. THE SIXTH CIRCUIT DECISION WILL HAVE A SINISTER AND DEPRESSANT EFFECT ON R&D COMMITMENT

Recognizing that other nations are "challenging us both in intellectual and in economic terms", President Nixon, in his Message to Congress March 16, 1972, on Science and Technology, called for "a strong new effort to marshall science and technology in the work of strengthening our economy and improving the quality of our life", but cautioned:

> "... we must see that the environment for technological innovation is a favorable one. In some cases, excessive regulation, inadequate incentives and other barriers to innovation have worked to discourage and even to impede the entrepreneurial spirit. We need to do a better job of determining the extent to which such conditions exist, their underlying causes, and the best ways of dealing with them."

In the "environment" which existed before the Sixth Circuit decision, there was evidence of a strong and aggressive R&D commitment by this nation. During 1972, Federal obligations for R&D totaled $17.3 billion, including obligations for R&D facilities, and it is anticipated that $18.3 billion will be expended in 1974.[13] In addition, industrial R&D expenditures

[13] The Budget for Fiscal Year 1974, p. 251, *et seq.*

totaled $11.4 billion in 1972, and it is expected these will increase to $13 billion in 1974.[14]

Commitments of this nature, however, can only be made in reliance upon a legal framework that will protect the investments made, so that industry or government can, with some certainty, expect to realize a reasonable private or public return. Otherwise, there is little incentive to engage in such activities.

The Sixth Circuit opinion injects tremendous uncertainty into the legal structure that has protected the fruits of R&D, not only within the Sixth Circuit, but throughout the nation. It is clear that industry within the Sixth Circuit now has no assurance that its developments, achieved through labor and risk of resources, will not be handed over free to competitors both foreign and domestic. Moreover, industry throughout the nation must now face the budgeting of R&D with unsettling uncertainty. Faithless employees or licensees may appropriate trade secrets elsewhere and use them in businesses within the Sixth Circuit.

An environment as unpredictable and precarious as this will clearly influence companies in their budgeting for R&D activities. The combined effect of denial of protection in the Sixth Circuit and uncertainty in the other circuits yields a clear disincentive to invest in R&D.

IV. THE SIXTH CIRCUIT DECISION CONDONES A MORALLY AND ETHICALLY INDEFENSIBLE STANDARD OF CONDUCT

If unpatented technical information is not protectible, hiring away key technical personnel of competitors and disloyalty will be encouraged and

[14] Science Resources Studies Highlights, National Science Foundation, February 28, 1973, NSF 73-301, p. 1-2.

abetted. These and similar practices are morally and ethically indefensible; they should not be legally permissible. Public policy *must* favor honesty and loyalty.

V. IF ALLOWED TO STAND, THE DECISION OF THE SIXTH CIRCUIT WILL HAVE A SERIOUS ADVERSE IMPACT ON THE U. S. ECONOMY

The paramount importance of the present case lies in the extraordinary adverse impact it will have on the economy of this nation, and the undesirable consequences which will follow, if this decision is not reversed.

Income to the U.S. from foreign licensing, largely of trade secrets, including business and technical know-how, is in excess of $2 billion. The rule of this case jeopardizes this very positive balance-of-trade account by rendering such licensed subject matter virtually valueless. Not only is the U.S. trade balance unfavorably affected, but the U.S. Treasury will also lose approximately half this income, normally received as income tax.

Additionally, the cross-flow of technology under license agreements is often beneficial, and occasionally essential, to the public interest. Foreign owners of trade secrets will not wish to risk disclosure to U.S. licensees, if the rule of the Sixth Circuit is permitted to stand.

Moreover, the adverse effect of the holding increases in seriousness as the size of the business involved diminishes. This case, if not reversed, will cause especially serious economic and social harm to individual entrepreneurs and small firms, many of whom depend for their survival upon a single, or a few, protected trade secrets or items of know-how.

It is urged that the Sixth Circuit decision should increase competition. That desideratum will not occur, however, because the effect is to kill the goose which lays the golden technology. Nor will it occur, if the effect is to force companies to compartmentalize R&D to minimize the likelihood of one person knowing all the trade secrets or know-how involved in a single project.

Further, companies, both large and small, will be reluctant to share their technology with others for fear that the value of the licensed technology will be lost through inadequate precautions being maintained by their licensees. In the past it has been customary to gear a licensee's payments to installments based on use of the technology so that the licensee pays based on what the technology is worth to him as it is used. Now, before a company could agree to license another company to use its technology it would have to receive full payment in advance as "front money", since the licensee after receiving the technology could refuse to make periodic payments based on use on the ground that the trade secrets are unprotectible.

Manifestly, this circumstance would foreclose small companies from licensing technology from others, since they could not afford the large lump sum payments which would be required in advance.

This impediment to the exchange of information can only have adverse effects and is, therefore, not in the public interest.

VI. THE SIXTH CIRCUIT RULING IS NOT FOUNDED ON SOUND LEGAL REASONING OR PRECEDENT

The ruling below is erroneous in that it misapplies the doctrine and holdings of this Court on federal preemption of appropriate areas for state action.

Although often admitting that federal preemption is a most perplexing question[15] this Court has maintained a wise accommodation between the needs of central control and the vitality of local institutions.[16] Thus, where Congress has not clearly expressed an intent to preempt a legislative area, this court has always insisted that the justification for federal supersession be compellingly clear.[17]

While exclusive federal authority in the field of patents is now resolved,[18] federal authority over trade secrets is certainly not, and the States have traditionally legislated extensively in the area. Where the States have exercised exclusive competence in the past, or where federal and State legislative competence has been concurrent, this Court has always assumed that the historic police powers of the States were not to be superseded, absent a clear and manifest purpose of the Congress to do so.[19] Thus, giving due

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[15] See Union Brokerage Co. v. Jensen, 322 U.S. 202 (1944); South Carolina State Highway Dept. v. Barnwell Bros., 303 U.S. 177 (1938); Kelly v. Washington, 302 U.S. 1 (1937); Townsend v. Yeomans, 301 U.S. 441 (1937).

[16] See Davies Warehouse Co. v. Bowles, 321 U.S. 144 (1944); City of Yonkers v. United States, 320 U.S. 685 (1944).

[17] See Cloverleaf Butter Company v. Haygood Patterson, 315 U.S. 148 (1942); Jennings v. United States Fidelity & Guaranty Co., 294 U.S. 216 (1935); Florida v. United States, 282 U.S. 194 (1931); Minnesota Rate Cases, 230 U.S. 352 (1913).

[18] Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964).

[19] Schwartz v. Texas, 344 U.S. 199 (1952); H. P. Welch Co. v. New Hampshire, 306 U.S. 79 (1939). See also Rice v. Santa Fe Elevator Corp., 331 U.S. 218 (1947); Allen-Bradley Local v. Wisconsin E. Rel. Bd., 315 U.S. 740 (1942); Napier v. Atlantic Coast Line R. Co., 272 U.S. 605 (1926); Savage v. Jones, 225 U.S. 501 (1912); Reid v. Colorado, 187 U.S. 137 (1902).

regard to a proper adjustment of State and federal power in our constitutional system,[20] unless Congress has definitely expressed or clearly implied an intent exclusively to occupy the area, and displace the State police power,[21] the State legislative scheme is valid.[22]

Nothing in this case indicates that Congress, in enacting the Patent Laws, left no room for the States to supplement protection of intellectual property.[23] Indeed, the legal groundings of patent and trade secret protection are quite dissimilar. Patent laws protect an inventor's reward for creativity, and primarily vest a property right, while trade secret laws protect the trust and confidentiality of business and fiduciary relationships.[24]

For the same reason, we cannot conclude that the federal interest in patent protection is so dominant that State legislation regarding trade secrets is assumed to be precluded.[25] Trade secret protection antedates modern patent legislation, and we must presume that Congress would have articulated federal

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[20] F.T.C. v. Bunte Bros., Inc., 312 U.S. 349 (1941).

[21] Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942). See also Bethlehem Steel Co. v. New York State L. R. B., 330 U.S. 767 (1947); H. P. Welch Co. v. New Hampshire, 306 U.S. 79 (1939).

[22] See Algoma Plywood & Veneer Co. v. Wisconsin E. Rel. Bd., 336 U.S. 301 (1949); Eichholz v. P.S.C. of Missouri, 306 U.S. 268 (1939); *rehearing denied*, 306 U.S. 669 (1939).

[23] See generally Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942); Pennsylvania R. Co. v. P.S.C. of Pennsylvania, 250 U.S. 566 (1919).

[24] E. I. duPont de Nemours Powder Co. v. Masland, 244 U.S. 100 (1917).

[25] Cf. Hines v. Davidowitz, 312 U.S. 52 (1941).

dominance, had it wished to do so. Further, the obligations imposed by the federal patent laws do not reveal an intent to preclude State legislation.[26] Patent laws grant a limited exclusive right in return for public disclosure, while trade secret laws protect the obligation of contract, or deter the commission of torts.

Finally, it cannot be said that State legislation in this area produces a result inconsistent with the federal legislative scheme.[27] The patent laws work their historic twofold purpose of rewarding creativity and disclosing invention for the public benefit. The result of trade secret protection is perfectly consistent and complementary: research is stimulated, and its fruits inure to the public benefit in the form of new and improved products and services.

Last Term, in *Goldstein* v. *California*, — U.S. —, 37 L.Ed.2d 163 (1973), this Court refused to find that State criminal protection against "tape piracy" was preempted by federal copyright laws, prior to the extension by Congress of federal copyright protection to sound recordings. The Court argued that nothing in the copyright power suggests that the federal interest is exclusive, and that some copyright subject matter may be of purely local importance. The same considerations apply here. If the federal interest in protection of intellectual property were exclusive, surely the Constitution or the Congress would have so stated long before now.

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[26] See New York C. R. Co. v. Winfield, 244 U.S. 147 (1917); Charleston & W.C.R. Co. v. Varnville Furniture Co., 237 U.S. 597 (1915); Southern R. Co. v. Railroad Commission of Indiana, 236 U.S. 439 (1915).

[27] See Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942); Hill v. Florida, 325 U.S. 538 (1945).

In the instant case, it is most difficult to imagine a Congressional intent to supersede State trade secret laws. Indeed, Congress has recognized the validity of protecting trade secrets in many federal statutes. Thus, for example, the patent law itself, 35 U.S.C. Section 24 (Rev. Stat. Section 4908) bars a contempt citation of a witness who refuses to disclose trade secrets, 18 U.S.C. Section 1905 forbids officers and employees of the United States from disclosing trade or know-how secrets; 15 U.S.C. Section 46(f) gives the Commissioner of the F.T.C. power to publish information received by the Commission, *except trade secrets;* and 15 U.S.C., Sections 78x(a) and 79v deny the Securities and Exchange Commission authority to require disclosure of trade secrets in applications and reports. Moreover, Rule 26, of the Federal Rules of Civil Procedure and Rule 508 of the Proposed Rules of Evidence for United States Courts and Magistrates, approved by this court, — U.S. — , 34 L.Ed. 2d iv (1973) grant protection against disclosure of trade secrets, and confidential research and development information.

In the face of this express Congressional approval of protectibility of trade and know-how secrets, it must be concluded that Congress intended federal patent laws and State trade secret laws to share the task of protection of intellectual property, and the court below has wrongly concluded otherwise.[28]

CONCLUSION

This case presents a constitutional question of paramount public interest and concern on which there is an acknowledged conflict among the Circuits.

---

[28] Prudential Insurance Co. v. Benjamin, 328 U.S. 408 (1946).

Amicus Curiae respectfully urges this Court to issue a Writ of Certiorari in this case so that the conflict may be resolved and the present clouded status of the law of trade secrets may be clarified.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that copies of the foregoing were on this ———day of September, 1973 mailed by regular airmail to counsel for Petitioner and Respondents as follows: Mr. Edward P. Troxell, Jones, Day, Cockley and Reavis, 1750 Union Commerce Building, Cleveland, Ohio 44115; Mr. William C. McCoy, Jr., Bosworth, Sessions & McCoy, 625 National City Bank Building, Cleveland, Ohio 44114.

OCT 1 - 1973

IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY, *Plaintiff-Petitioner*

v.

BICRON CORPORATION ET AL., *Defendants-Respondents*

MOTION BY THE BAR ASSOCIATION OF THE DISTRICT OF COLUMBIA FOR LEAVE TO FILE A BRIEF AMICUS CURIAE IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT, AND BRIEF AMICUS CURIAE

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PRESS OF BYRON S. ADAMS PRINTING, INC., WASHINGTON, D. C.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY, *Plaintiff-Petitioner*

v.

BICRON CORPORATION ET AL., *Defendants-Respondents*

MOTION FOR LEAVE TO FILE BRIEF AMICUS CURIAE

The Bar Association of the District of Columbia respectfully moves for leave to file the attached brief amicus curiae in the above-entitled case. Counsel for petitioner has consented to the filing of this brief. Counsel for respondents has not consented but does not object.

The Bar Association of the District of Columbia has a vital interest in this case because it has an impact on the business practices of the clients served by its 4,600 members. In addition to many of its members being located throughout the country, many of the clients represented are spread not only throughout the United

States, but in many foreign countries as well. Thus, although the Bar Asociation of the District of Columbia is a local bar, it is international in nature. The decision by the Court of Appeals of the Sixth Circuit in the case at bar being in conflict with the other circuits, makes it impossible to adequately advise and counsel these clients.

Accordingly, the Association of the District of Columbia requests that this court grant it leave to file the attached brief amicus curiae.

Respectfully submitted,

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BRIEF AMICUS CURIAE

NATURE AND INTEREST OF AMICUS CURIAE

The Bar Association of the District of Columbia is vitally interested in this case because it has an impact on the business practices of the clients served by its 4,600 members. In addition to many of its members being located throughout the country, many of the clients represented are spread not only throughout the United States, but in many foreign countries. Thus, although the Bar Association of the District of Columbia is a local bar, it is international in nature. The decision by the Court of Appeals of the Sixth Circuit in the case at bar being in conflict with the other circuits makes it impossible for the members of this Association to adequately advise and counsel these clients.

The parties in this case will be addressing the question whether the Patent Act of 1952 pre-empts and makes ineffectual state protection at common law of trade secrets which have been used commercially for more than one year with specific relationship to breach of contract or confidential relationsnip as it may be presented by the factual background of the case at bar.

Movant, on the other hand, is concerned with the effect of the lower court decision on;

(1) all employment contracts,

(2) the piracy of trade secrets, generally and

(3) the present practice of licensing of trade secrets and know-how not only on a national, but on an international basis as well.

REASONS FOR GRANTING THE WRIT

Movant is filing this brief because of the important national policy considerations involved and to inform the Supreme Court of its vital concern.

Movant is aware of the policy of the Supreme Court with respect to the filing of amicus curiae briefs. It is in recognition of this policy, and to not encumber the record by repeating reasons stated by others for granting the writ, that movant endorses the briefs of both the American Bar Association and the American Patent Law Association in their support of the Petition for Writ of Certiorari. In endorsing the above-referenced amicus briefs, this Association believes the writ should be granted because:

1. The vitality of all employment contracts with employees dealing with the protection of an employer's trade secrets are in doubt,

2. The decision encourages employees to establish competing businesses through piracy of their former employer's trade secrets developed at the employer's considerable expense, and

3. The ability to continue the present practice of licensing trade secrets and know-how is in doubt.

CONCLUSION

For the reasons stated above, amicus curiae urges that the petition for certiorari be granted.

Respectfully submitted,

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BICRON CORPORATION, ET AL.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

BRIEF FOR THE ASSOCIATION FOR THE ADVANCEMENT OF INVENTION & INNOVATION AS AMICUS CURIAE

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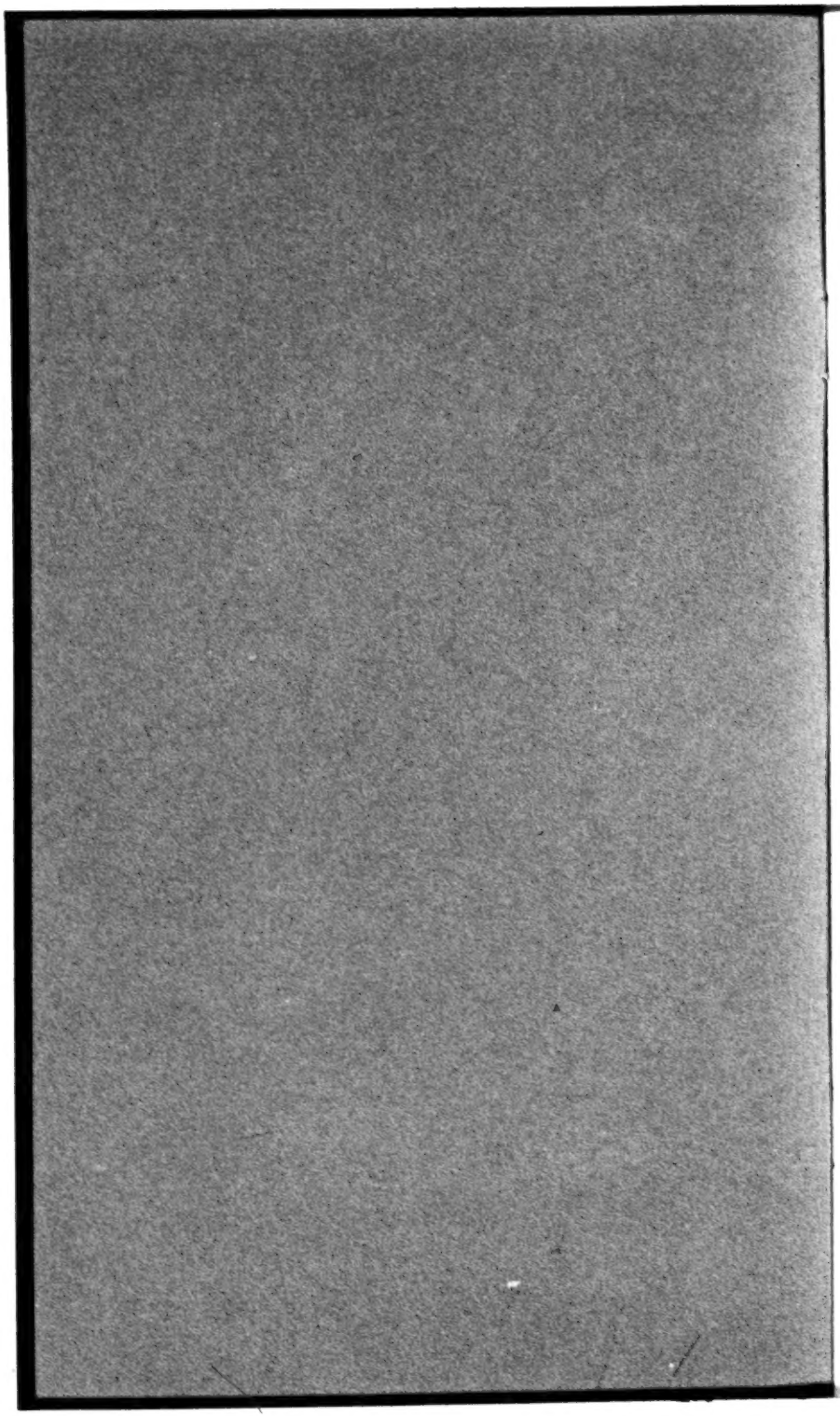

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On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

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BRIEF FOR THE ASSOCIATION FOR THE ADVANCEMENT OF INVENTION & INNOVATION AS AMICUS CURIAE

I. AUTHORITY TO FILE

In a letter dated October 9, 1973, the Office of the Clerk of the Supreme Court advised that the Court granted the motion of the Association for the Advancement of Invention & Innovation for leave to file a brief, as *amicus curiae*, in the present case.

II. PURPOSES OF BRIEF

The major purposes of this brief are to urge this Court:

1. To hold that a state law which protects an inventor or developer in the maintenance of his trade secret, whether it may be of a patentable or unpatentable nature, is not in conflict with Patent Laws.

2. To rule that an inventor or developer has not forfeited his right to protection under a state trade secret law merely because he has used his technology in commerce for more than a year, and

3. To reverse the decision of the Court below to the extent it is contrary to the principles set forth above.

III. INTEREST OF THE ASSOCIATION FOR THE ADVANCEMENT OF INVENTION & INNOVATION

The Association for the Advancement of Invention & Innovation is a non-profiit professional association of inventors, entrepreneurs, research directors, businessmen, scientists, engineers, lawyers, patent attorneys, educators, former government officials and others who are dedicated to the proposition of improving the climate for invention and innovation in our country. The combined background of the membership embraces the entire spectrum of the process of invention (conceiving the idea) and innovation (bringing the invention to the marketplace).

The Association believes that to foster an appropriate climate for invention and innovation in our country there must be adequate incentives to invest the time, money and effort needed to bring forth inventions to the marketplace. Such incentives are presently provided by the Patent Laws and state trade secret

laws. To eliminate trade secret protection would remove one of the major incentives for invention and innovation in the country to the detriment of all concerned.

IV. WHY THE DECISION OF THE COURT BELOW SHOULD BE MODIFIED

1. The Nature of Trade Secret Protection Was Not Fully Understood or Appreciated.

The decision of the Court below concludes that ". . . by the use of the state trade secret law he is able to exclude competition and prevent disclosure, thus obtaining protection which he could not obtain under the laws of the United States." To the contrary, trade secret protection does not carry with it a general right to exclude others who happen upon the technology in question through their own honest efforts. Any third party who develops the same subject matter himself is entirely free to use or disclose it in any way he wishes. Trade secret protection only guards against others acquiring the technology by theft or breach of a confidential relationship.

The possibility of subsequent independent discovery is the prime risk that is implicit in reliance on trade secret protection. The courts heretofore have universally recognized that the law of trade secrets affords no protection against the honest second discoverer; see for example *Speedry Chems. & Prods., Inc.* v. *Carter's Ink Co.*, 306 F.2d 328, 330 (2nd Cir. 1962); *Grepke* v. *General Elec. Co.*, 280 F.2d 508, 512, 126 U.S.P.Q. 93 (7th Cir.), cert. denied, 364 U.S. 899 (1960); *Ferroline Corp.* v. *General Aniline & Film Corp.*, 207 F.2d 912 (7th Cir. 1953) (applying New Jersey law), cert. denied, 347 U.S. 953, rehearing denied, 348 U.S. 851

(1954). Indeed, there is substantial reason to believe that the first user of a trade secret may not prevail against the *innocent* wrongful user thereof, *Speedry Chems. & Prods., Inc. supra,* wherein it was said:

> "However, the discoverer of such secrets has no exclusive right against another who uncovers the secret by fair means, or against those who acquire knowledge of it without a breach of contract or of a confidential relationship with the discoverer, *American Dirigold Corp.* v. *Dirigold Metals Corp.*, 125 F.2d 446, 52 USPQ 510 (6 Cir. 1942); Nims, Unfair Competition and Trademarks, 4th Ed. p. 418."

Thus, he who relies on trade secret protection has no monopoly and no right of exclusion. His protection is only against the wrongdoer, but this protection is of prime importance when one has spent considerable resources and effort in developing a valuable product or process. By contrast, the Patent Law to the extent pertinent concerns a Government grant of monopoly rights in technology, which rights are assertible against others *wholly independent* of the manner in which they acquire the protected technology.

The Patent Law arms the patentee against any unauthorized use of his invention no matter how the invention becomes known to the infringing party. The patent protects the patented technology for a term of years no matter how well it may become known to the world.

The Patent Laws operate in an entirely different domain than trade secret laws which depend wholly on a finding of wrongful derivation from a rightful possessor. For these reasons, Patent Laws do not and

cannot conflict with trade secret laws such as to preempt them.

2. To Correct an Inaccurate Impression That Trade Secret Laws Duplicate the Patent Laws in Any Real Practical Sense.

It is axiomatic that the first requirement of a trade secret is the ability to maintain secrecy. The trade secret must not be ascertainable from study of products sold and is typically a formulation, factory process or other manufacturing technology. In the absence of a patent, technology which enters the public domain is available for use freely by the public. State laws of unfair competition and the like may not be used to achieve a contrary result, *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964).

Where the technology may reasonably be kept in secrecy, there is equally no convenient way for a prospective patentee to know when the technology which would be disclosed through a patent is used by others. Ability of others also to retain use of the technology secret tends to render patent protection ineffectual. Thus, while trade secrets are sometimes thought of as an alternative to patenting, *United States* v. *Dubilier Condenser Corp.*, 289 U.S. 178 (1933), in a very practical sense, trade secret protection is all that is really available for an important class of innovations.

3. To Prevent a Substantial Decrease in the Level of Invention and Innovation in the Country on Account of Reduced Incentives.

The decision of the Court below is contrary to long established legal doctrines and business practices, and, as such, it substantially reduces the benefits that can be

derived from research and development. Thus, when one embarks on a program of research and development one does not know what patentable or unpatentable inventions may be produced. Further, one can really never be sure what inventions will ultimately be held patentable or unpatentable. Thus, the result is that budgets for research and development will undoubtedly be reduced on account of decreased incentives for conducting such programs since trade secret protection would no longer be available as a means to protect the fruits of one's research and development program.

The decision of the Court below will encourage companies to raid their competitors for technical employees in order to learn their competitors' business and factory practices. It would be much less expensive to appropriate competitors' trade secrets through this mechanism than to conduct an independent and expensive research and development program. It is to be noted that the present law on trade secrets in most jurisdictions provides a reasonable balance between protecting as employer's trade secrets while at the same time protecting the employee's right to change his employment. See for example *Allis-Chalmers Mfg. Co.* v. *Continental Aviation & Eng'r. Corp.*, 255 F.Supp. 645 (E.D. Mich. 1966).

The decision of the Court below encourages companies to shift their research and development programs to foreign countries where trade secret protection is available. Also, the decision encourages companies to shift their manufacturing operations to foreign countries for the same reason. The end result of these shifts would obviosly be to reduce jobs for American workers as well as to adversely affect our

international balance of trade. With regard to international aspects of the decision, the decision of the Court below would appear to be in conflict with provisions of international treaties signed by the United States.

4. To Overcome Undesirable Disincentives for the Transfer and Licensing of Technology.

If the decision of the Court below is permitted to stand, licensees will be spurred into discontinuing the payment of royalties under know-how license agreements. This could result in the loss by American licensors of a billion dollars of royalties per year from foreign licensees, which would obviously also adversely affect our international balance of payments. More important, however, would be the reduced incentives for licensors to conduct an active research and development program to generate such know-how in the future. Further, licensors would be discouraged from licensing existing know-how because of the increased likelihood that United States and foreign licensees would not continue for long to pay royalties for such know-how.

If the decision of the Court below is permitted to stand, foreign licensors will hesitate to license their technology to United States companies since U.S. licensees cannot assure foreign licensors that their confidential know-how can be maintained as trade secrets. The net result of such actions would be to increase imports of the products involved or to eliminate them altogether from the American market to the detriment of the American public, to reduce jobs for American workers, and to thereby adversely affect our international balance of trade.

5. Congress and Other Branches of Government Have Long Recognized the Validity of Trade Secret Protection.

By way of example, in the Consumer Product Safety Act of 1972, 15 U.S.C.A. Section 2055(a)(2) entitled "Public disclosure of information", Congress provided for recognition and safeguarding of trade secrets by express reference thereto. In the Armed Services Procurement Regulations (ASPR), Section 9-201(c) provides for possible acquisition by the Government of technical information with "Limited Rights" that in essence normally precludes publication or use by the Government outside the Government. The Federal Rules of Civil Procedure refer at Rule 26(c)(7) to protection of . . . "a trade secret or other confidential research, development or commercial information . . .". While the right to confidentiality of a trade secret is not absolute, for example such right must bow to national emergencies and the requirements of pertinent evidence in litigation, nonetheless the trade secret right has heretofor generally been respected and upheld in law and its administration. The basic principle as succinctly stated by Justice Holmes in the often cited case of *Board of Trade of City of Chicago* v. *Christie Grain & Stock Co.*, 198 US 236, 25 S Ct 637, 49 L ed 1031 (1905), is

> "The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they wished, does not authorize them to steal plaintiff's."

V. CONCLUSION

For the foregoing reasons, amicus urges this Court to modify the decision of the Court below as recommended herein so as to avoid the adverse influences

such decision would have on the climate for invention and innovation in our country as well as world-wide. A great strength of the United States relative to other countries lies in its superior technology, much of which is unpatented. Our favorable balance of trade in technology-intensive products and know-how license agreements where United States manufacturing companies are the licensor supply the practical proof. The United States is primarily in the position of a donor of technology. To condone misappropriation of such technology only serves to dissipate this great strength.

It is submitted that if the basic law is to be change in this field in a way which will have such a major impact on the economic system of the United States (e.g., balance of trade, productivity, etc.) such a change should be effected by Congressional action rather than judicial action.

Respectfully submitted,

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In the Supreme Court
OF THE
United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY, *Petitioner,*

vs.

BICRON CORPORATION, ET AL., *Respondents.*

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

BRIEF FOR AMICUS CURIAE OPTICAL COATING LABORATORY, INC.

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---

BRIEF FOR AMICUS CURIAE OPTICAL COATING LABORATORY, INC.

I. THE NATURE AND THE INTEREST OF THE AMICUS

A. OPTICAL COATING LABORATORY, INC.

This brief *amicus curiae* is submitted by Optical Coating Laboratory, Inc. (herein "OCLI") under Rule 42(2) of the Supreme Court. Letters in which the parties' counsel have acknowledged consent to the filing of this brief are on file with the Clerk of this Court.

OCLI is a California corporation with advanced technology products and services for the design, fabrication, and testing of vacuum deposited optical coatings. These coatings are deposited on company manufactured parts or on optical components supplied by customers for use in the customers' devices. OCLI coated parts are used in important products to the consumer such as pollution monitoring control devices, burglar alarms, and solar energy conversion systems.

Although it is not a large corporation (net sales and other revenues in 1972 of approximately 11.4 million dollars) it has established a reputation for leadership in developing new processes, products and markets. Such development expands the frontiers of knowledge in its field and makes new products available to the public. However, it requires large expenditures of time and money in research and development (herein "R&D") with a substantial staff of highly trained technical personnel. The reward for this investment of many years of costly experimentation is made possible by protecting trade secrets and know-how using tight security. Such information gives OCLI an advantage over those competitors which do not expend comparable efforts towards R&D.

B. INTEREST OF THE AMICUS

OCLI is concerned that if the Circuit Court decision below is affirmed, this would create a legal precedent under which a significant portion of the fruits of OCLI's costly R&D would become unprotectable. Therefore, it would be vulnerable to dissemination by unscrupulous competitors who, for example, could freely raid experi-

enced OCLI employees and obtain the information at a fraction of its cost to OCLI.

II. ARGUMENT

A. PURPOSE OF BRIEF

The legal arguments as to the applicable law will be presented in detail not only by the parties but by many briefs *amicus curiae* which are being filed by other *amici*. The purpose of this brief is to present a case history of OCLI's technological information management program and the potentially devastating effect upon OCLI which would result from an affirmation of the decision of the Circuit Court. It is believed that this affirmation would produce a similar harmful effect upon many other innovative domestic companies to the detriment of the advancement of technology in the United States.

Since OCLI is a California corporation, the applicable California trade secret law is worthy of note. As enunciated by the Ninth Circuit, equitable relief is available to prevent disclosure of trade secrets under state law. The Patent Law, Title 35 of the United States Code, has not been construed as preempting this field.[1]

B. THE POTENTIAL LEGAL EFFECT OF AFFIRMATION

If this Court affirms the decision below, this would, in essence, establish a precedent termed for this discussion the "Kewanee Rule". Under this rule, protection by the

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[1]Dekar Industries, Inc. v. Bisset-Berman Corporation, 434 F. 2d 1304 (9th Cir. 1970) *Cert. Den.* 402 U.S. 945 (1971).

state law of trade secrets which are appropriate subjects for patent would be preempted by the Patent Law, after the subject matter of the trade secret has been "used commercially" for more than one year. Under 35 U.S.C. 101, such preempted "appropriate subjects" include any "new and useful process, machine, manufacture or composition of matter" and so are not limited to concepts patentable under the stringent requirements of Sections 102 and 103 of the Patent Act. Accordingly, under the Kewanee Rule, essentially the entire field of trade secrets and proprietary know-how would be unprotectable under State trade secret law after one year of commercial use.[2]

C. OCLI's RESEARCH AND DEVELOPMENT PHILOSOPHY PROMOTES PROGRESS

Because it is highly innovative and develops new products and markets simultaneously, OCLI expends substantial amounts of time and effort upon research and development. There are many times when this expense is not fully recouped or when the product is not marketed at all.

There are a number of reasons why OCLI management authorizes the large expenditures required for innovative research and development on its products and processes and the machines for producing them. If the new development is successful, OCLI derives a competitive advantage

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[2]Under the Patent Act, such commercial use commences at the sale of one item for commercial purposes even though the trade secret cannot be determined by viewing the product. Typically, such sales occur many years prior to any profitable commercialization of the product and so, under the Kewanee Rule, the costly creation of the information would go unrewarded.

during commercialization of the product, typically at least five to ten years. Under the Kewanee Rule, this competitive advantage would cease after the first year of commercial use because the trade secret information would be available; for example, to a competitor hiring away a knowledgeable OCLI employee.

Another reason for such management authorization is that, even if a particular project is unsuccessful, the information derived from such projects can be of great value in creating a reservoir of OCLI expertise for use in related areas of technology. For example, OCLI spent approximately $250,000 to develop high grade products (photomask blanks) for the electronic integrated circuit industry. This money was primarily used to optimize the processing steps to produce increased final product yield and superior quality. Even though OCLI was not successful in this specific market place the technical knowledge gained from this effort is proving invaluable in other related fields.

If management knew that it could not legally protect the information derived from such research and development under applicable trade secret law, as would be the case under the Kewanee Rule, it would hesitate to develop innovative new products and markets where there is a significant chance of failure to recoup the investment from the product itself. Thus, management would be forced to seriously consider a total re-emphasis of R&D expenditures so that, for example, risky projects to develop new advanced products are reduced in priority. Instead, the more profitable path in the absence of trade secret protection would be to expend more funds to im-

prove the production efficiency in the manufacture of existing products. The net effect would be to inhibit technological progress.

D. OCLI PROPRIETARY INFORMATION IS NOT ADEQUATELY PROTECTED BY PATENTS

A significant proportion of OCLI R&D expenditure is for engineering the development of processing steps in vacuum deposition of optical thin films. Precision coatings, under high vacuum, often require deposition of as many as 50 to 200 thin film layers of different compositions and thicknesses. For example, thousands of specific coatings and coating procedures have been developed by OCLI. OCLI considers the proprietary data and information developed by such research to be of great value and takes elaborate precautions to retain it in secret. Such information includes what is understood to be "trade secrets" and "proprietary know-how".

The great majority of the foregoing developments involve the engineering optimization of detailed processes. Typically, such details are characterized by the United States Patent Office as obvious subject matter to a person having ordinary skill in the art as defined under 35 U.S.C. 103. Thus they would be considered by the Patent Office to be unpatentable and therefore unprotectable in the absence of state trade secret law. Thus, under the Kewanee Rule, this valuable information could not be protected at all.

OCLI develops as many as one thousand or more coating compositions and procedures a year. A company of

OCLI's size does not have the resources to file patent applications on each one. Thus, even if the compositions and procedures were patentable, the only practical way to protect most of this information is under applicable state trade secret law.

E. OCLI TRADE SECRET AND KNOW-HOW LICENSING BENEFITS THE PUBLIC

1. Licensing Domestic Companies

Domestic licensing has become an important source of revenue to OCLI and is a reward for its R&D investment which provides new products for the public. The public is further benefited because the licensees often manufacture products in direct competition with OCLI and other companies making similar products.

When OCLI has licensed its trade secrets and know-how, the agreements bind the licensees to keep the information in strict confidence. Under the Kewanee Rule, OCLI would not be able to domestically license such technology because the information could be freely disseminated by the licensees to third parties after one year of commercial use of the information.

Another reason for the inability of OCLI to domestically license under the Kewanee Rule would be that a potential licensee might hesitate to expend considerable sums of money for this information. Instead, it could, if it is so desired, hire knowledgeable technical employees of OCLI who had access to the company's trade secrets developed by OCLI personnel over the years. Indeed hiring such an employee would not even be necessary if the

potential licensee could bribe or otherwise persuade him to divulge the information. Such methods of acquisition would be at a small fraction of OCLI's cost for the research and development involved.

The undersirable net effect of the Kewanee Rule would be to penalize OCLI because it is willing to support progressive R&D programs.

2. Licensing From Foreign Companies

OCLI has licensed technology from abroad. In one instance, OCLI paid almost $900,000 to a European company to obtain trade secrets and know-how relating to durable thin films. Although the license was executed after the first year of sale by the European company in the United States, the information obtained by OCLI enabled it to begin production in new fields and to advance the technology of the same. These products derived from this licensed technology have returned many millions of dollars over the years.

The management of OCLI believes that it would not have attempted to expand into this field of technology without the proprietary information it purchased under the license agreement. Since the European company continued selling goods in the same market to the United States, the above agreement established domestic competition of goods where none would have existed otherwise.

Under the above license agreement OCLI was obligated to hold the proprietary information in strict confidence. Under the Kewanee Rule, OCLI could not have protected this information and so the European company might

not have licensed OCLI, resulting in a loss of revenue to OCLI and lessened competition in the United States.

3. Licensing by OCLI to Foreign Companies

OCLI licensed trade secrets and know-how to a Japanese company in an agreement in which proprietary information was strictly protected by both parties. The license fees under the agreement amounted to an initial payment of $150,000 and subsequent yearly payments of about half that amount. Agreements of this type enable OCLI to obtain the rewards for its costly and successful R&D expenditures. Without such agreements OCLI would be required to reduce such expenditures to the detriment of domestic technological progress.

One reason why the Japanese company might not license under the Kewanee Rule is that it could hire away employees of OCLI for a small percentage of the value of the information under a license. Also, since OCLI could not protect this information from its competitors, the value of the information would be substantially reduced.

F. VALUE OF TRADE SECRET AND KNOW-HOW LICENSE SUBSTANTIALLY INCREASES AFTER FULL COMMERCIALIZATION.

It is a commercial reality that trade secrets and know-how which have not been fully developed in the market place are worth substantially less than the same information relating to the same product after full scale commercialization and development of the market. Because this usually occurs long after the first commercial sale,

all of OCLI's licenses over the years have been granted long after one year of commercial product sale. Thus, OCLI would not be able to enforce such licenses under the Kewanee Rule.

Even if OCLI attempted to license its trade secrets and know-how during the early stages of development and before the expiration of one year after first commercial sale, such license would be of negligible commercial value. This is because potential licensees could wait until after the one year period, and legally acquire the information from a disloyal employee for a fraction of the cost of licensing.

G. ADVERSE EFFECT ON OCLI SUBCONTRACTS

OCLI does a substantial amount of subcontract work for large corporations such as Xerox, IBM, and Polaroid. All of such contracts relate to OCLI's developing new component parts in the contractor's complete devices and include strict clauses to protect the proprietary information of the contractor.

Under the Kewanee Rule, OCLI would not be in a position to protect the contractor's valuable proprietary information. Under such circumstances, such companies would not risk OCLI's custody of this information and so most likely would attempt to perform such services "in house". This would damage small companies, such as OCLI, which rely heavily upon subcontract work. Also, it would tend to reduce competition in the United States.

H. INTRACOMPANY POLICY EFFECT—MORE LIMITED ACCESS TO TECHNICAL INFORMATION

All technical personnel of OCLI are subject to confidential employment agreements. OCLI encourages such technical personnel to become versed in all phases of OCLI's business. This leads to cross-pollination of information and consequent greater efficiencies in both production and R&D within the company.

Under the Kewanee Rule, technical personnel could not be prevented from leaving the company and taking with them trade secrets and know-how developed by OCLI over the years. Thus, OCLI would be required to strictly review its policy regarding free access of information to its technical personnel in order to protect the company against raids of such personnel by competitors. Such restrictions would obviously lead to inefficiency within the company.

I. OCLI's USE OF OUTSIDE CONSULTANTS WOULD BE REDUCED

OCLI utilizes a number of outside consultants, all of whom sign agreements to protect any proprietary information to which they had access during consultation. Under the Kewanee Rule, OCLI would be extremely hesitant to permit such consultants to have such access because it could not protect its proprietary information.

Many consultants are employed for their knowledge of new fields into which OCLI is considering entry. OCLI's failure to use such consultants would tend to decrease the efficient exploration of such new fields.

J. REDUCED INCENTIVE FOR OCLI TO SELL OR LICENSE MACHINES TO ITS COMPETITORS

OCLI has sold and licensed a number of its optical coating machines to competitors under strict agreements to protect its proprietary information. The purchasers of such machines manufacture products which compete with OCLI's products in the United States.

Under the Kewanee Rule, OCLI would be less likely to sell such machinery since it could not protect its valuable proprietary information.

III. CONCLUSION

In view of the foregoing, affirmance of the Circuit Court would severely prejudice OCLI for its creative but costly research and development in at least the following ways:

(1) it would create incentive for predatory raiding of OCLI's valuable technical personnel by its less innovative competitors;

(2) OCLI would be forced to reduce the more risky phase of its research and development, i.e., that directed to new fields and products;

(3) it would greatly restrict OCLI's access to foreign technology and the ability of OCLI to sell its technology in foreign countries, resulting in a competitive disadvantage to OCLI with relation to companies in such foreign countries;

(4) it would drastically reduce subcontract work by OCLI, an important source of revenue to it; and

(5) it would require a reduction in OCLI's use of outside consultants.

The domestic public would also suffer if the lower court is affirmed. Technological progress would be decelerated because OCLI and other innovative companies would have reduced incentive to invest in costly research and development and would have restricted access to both foreign and domestic technical information. In addition, there would be a lessening of competition in the United States market.

For the reasons stated it is respectfully submitted that the judgment of the court below should be reversed.

Dated, San Francisco, California,
November 19, 1973.

Respectfully submitted,
HAROLD C. HOHBACH,
DAVID J. BREZNER,
Counsel for Optical Coating Laboratory, Inc., Amicus Curiae.

(Appendix Follows)

STATE OF CALIFORNIA)
COUNTY OF SONOMA) ss

DANFORTH JOSLYN, being duly sworn, deposes and states as follows:

1. He is executive vice president and director of Optical Coating Laboratory, Inc., (OCLI). In that capacity, he is thoroughly familiar with the technological information program of OCLI and participates in management decisions concerning such program.

2. He has carefully reviewed the foregoing brief amicus curiae and affirms, on behalf of himself and OCLI management, that the facts are true within his knowledge and belief and the opinions expressed reflect those of OCLI management.

Danforth Joslyn
DANFORTH JOSLYN

Subscribed and sworn to before me this 14th day of November, 1973.

Barbara L. Fisher
Notary Public

OFFICIAL SEAL
BARBARA L. FISHER
NOTARY PUBLIC-CALIFORNIA
SONOMA COUNTY
My Commission Expires May 7, 1975

P. O. Box 1599, Santa Rosa, Calif. 95403

SUPREME COURT, U. S.

No. 73-187

In the

Supreme Court of the United States

OCTOBER TERM, 1973

KEWANEE OIL COMPANY,

Plaintiff-Petitioner,

vs.

BICRON CORPORATION et al.,

Defendants-Respondents,

BRIEF AMICUS CURIAE OF THE AMERICAN BAR ASSOCIATION

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Interest of Amicus

The American Bar Association, consisting of over 175,000 lawyers throughout the United States, includes a substantial number of members regularly counseling clients concerning the assertion of and defense against patent and trade secret rights. The Association appears here in an attempt to assist the Court in the orderly development and clarification of trade secret law.

The Background Facts

Trade secrets frequently are of immense value. They are acquired by the expenditure of time and effort and investment so as to afford an advantage over competitors.

They are the subject of extremely valuable licensing arrangements both intranational and international.

Trade secrets are the subject of state criminal statutes. At least 21 states of the United States have adopted statutes making it a crime to steal trade secrets—with no distinction as to whether or not they are patentable.[1]

For at least three quarters of a century state courts throughout the United States, and many Federal Courts which have considered the issue, have found that the common law of the states, or state statutes, protect the owner of trade secrets from their theft or their unlawful disclosure or use in violation of a contract or a fiduciary relationship. Most of the states have held that their common law does so protect trade secrets, whether patentable or not. Representative of such decisions is that of

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[1] Ark. Stat. Ann. 6641-3949 to 6641-3951 (1967)
Cal. Penal Code §499c (1967)
Colo. Rev. Stat. § 40-5-33 (1969), § 40-5-34 (1967)
Ga. Crim. Code § 26-1809 (1968)
Ill. Rev. Stat. Ch. 38 § 15-1 to 15-9, § 16-1 (1965)
Ind. Code §§ 35-17-3-1 to 35-17-3-5 (1969)
Me. Rev. Stat. Ann. Tit. 17, § 2113 (1967)
Mass. Ann. Laws Ch. 266 §§ 30(4), 60A (1967)
Mich. Compl. Laws §§ 752.771 to 752.773 (1968)
Minn. Stat. Ann. § 609.52 (1967)
Neb. Rev. Stat. Ch. 28, §§ 548.01 to 548.03 (1965)
N.H. Rev. Stat. Ann. Ch. 580, § 32 (1967)
N.J. Stat. Ann. §§ 2A: 119-5.1 to 119-5.5 (1965)
N.M. Stat. Ann. § 40 A-16-23 (1967)
N.Y. Penal Code § 155.00(6), 155.30(3), 165.07 (1967)
N.C. Gen. Stat. § 14-75.1 (1967)
Ohio Rev. Code Ann. Tit. 13, § 1333.51, 1333.99 (1967)
Okla. Stat. Tit. 21, § 1732 (1968)
Pa. Stat. Tit. 18, § 4899.2 (1965)
Tenn. Code Ann. §§ 21-4238 to 21-4240 (1967)
Wis. Stat. Ann. § 943.205 (1965)

the Connecticut Supreme Court entitled *Plastic and Metal Fabricators Inc.* v. *Roy* reported at 163 Conn. 257, 303 A.2d 725 (1972).

This protection afforded to trade secrets in the United States is similar to protection afforded in the other industrial countries of the world. Indeed, the United States is party to international treaties which protect against "competition contrary to honest practices in industrial or commercial matters" and acts "contrary to commercial good faith"[2].

In the case at bar, the pertinent findings, in the language of the Circuit Court of Appeals, are as follows:

> "On this record, as a whole, it appears clear to us, as it did to the District Court, that the individual defendants used the information obtained during their employment by Harshaw for the benefit of Bicron. There can be no question on this record but what these individual defendants appropriated, to the benefit of Bicron, Harshaw's secrets, processes, procedures and manufacturing techniques. (478 F.2d 1076)
>
> • • • • •
>
> "In addition the mere showing or writing about certain manufacturing techniques was found by the District Judge to be insufficient to amount to a disclosure to the public of those trade secrets involved

[2]Article 10 bis of the Paris Convention Act of Lisbon, 1958, 13 U.S.T. 1 reads in part: "(1) The countries of the Union are bound to assure to persons entitled to the benefit of the Union effective protection against unfair competition. (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition." Article 20 of the Pan American Convention, 46 Stat. 2907, reads in its entirety, "Every act or deed contrary to commercial good faith or to the normal and honorable development of industrial or business activities shall be considered as unfair competition and, therefore, unjust and prohibited."

in this law suit, which were found by the District Court to be trade secrets within the law. (478 F.2d 1077)

• • • • •

"After careful consideration of the entire record it appears that the findings of fact of the District Judge are not clearly erroneous within the meaning of Rule 52, Federal Rules of Civil Procedure, 28 U.S.C., and the District Judge properly applied the Ohio law relating to trade secrets." (478 F.2d 1077)

The Confusion Below

The American Bar Association respectfully suggests that the Court below was in error in thinking that the Ohio law relating to trade secrets resulted in "the maintenance of a monopoly". This error led it to reason that the state law could not be enforced because the patent laws were the only ones which could provide a monopoly. The Court's confusion of state trade secret laws and monopolies was, therefore, a pivotal error below.

The trade secret law of Ohio, and that of all other states, provides a type of protection for these secrets which is distinctly different from the monopoly obtainable under the patent laws. The right which the patent law grants permits the patent owner "to exclude others from making, using or selling the invention throughout the United States" for a stated period. (35 USC 154) This is a broad right to exclude, which extends even to those who may independently make the same invention at some later time. No such right to exclude arises out of state trade secret law. On the contrary, the owner of a trade secret only has (1) the right to prevent those who have stolen the secret from him from disclosing or using it, and (2) the right to prevent others from disclosing or using it in breach of contract or by violation of a fiduciary relation-

ship. It is impossible, for example, for the owner of such a trade secret to assert any "trade secret" right against any person who independently develops the same secret. Indeed, it is well settled that more than one person may simultaneously and independently be in possession of the same trade secret.[3] The owner of a new technological development which is patentable therefore has the option of choosing between the broad right to exclude others—the monopoly grant—provided under the patent laws, and the narrow right to keep others from stealing or using his secrets in breach of a contract or of a fiduciary relationship.

This Court Has Consistently Recognized The Differences Between Patent Rights and Trade Secret Protection

These differences between the rights arising under the patent law and the rights in trade secrets have been stated by this Court many times. In *Becher* v. *Contoure Laboratories* (279 U.S. 388), Mr. Justice Holmes said:

> "It is plain that that suit had for its cause of action the breach of a contract or wrongful disregard of confidential relations, both matters independent of the patent law, and that the subject matter of Oppenheimer's claim was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust. *Irving Iron Works* v. *Kerlow Steel Flooring Co.*, 96 N.J. Eq. 702, 126 A. 291; *Du Pont deNemours Powder Co.* v. *Masland*, 244 U.S. 100, 37 S.Ct. 575, 61 L.Ed. 1016. Oppenheimer's right was independent of and prior to any arising out of the patent law, . . .".

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[3] (Callmann, *The Law of Unfair Competition and Trade Marks*, 2nd Ed., 1950, Vol. 2, Ch. 14, Sections 51-54; Ellis, Trade Secrets, 1953, Ch. 2; Restatement of Torts (1939) Section 757.

In *Chicago Board of Trade* v. *Christie G. & S. Co.*, (198 U.S. 236, 1905), Mr. Justice Holmes said:

> "It stands like a trade secret. The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they might, does not authorize them to steal the plaintiff's. Compare *Bleistein* v. *Donaldson Lithographing Co.*, 188 U.S. 239, 249, 250, 47 L.Ed. 460, 462, 23 Sup. Ct. Rep. 298. The plaintiff does not lose its rights by communicating the result to persons, even if many, in confidential relations to itself, under a contract not to make it public, and strangers to the trust will be restrained from getting at the knowledge by inducing a breach of trust, and using knowledge obtained by such a breach." (198 U.S. 250)

In the *United States* v. *Dubilier Condenser Corp.* (289 U.S. 178, 1933), Mr. Justice Roberts said:

> "An inventor deprives the public of nothing which it enjoyed before his discovery, but gives something of value to the commodity by adding to the sum of human knowledge. (citing cases) He may keep his invention secret and reap its fruits indefinitely. In consideration of its disclosure and the consequent benefit to the community, the patent is granted. An exclusive enjoyment is guaranteed him for seventeen years, but, upon the expiration of that period, the knowledge of the invention inures to the people, who are thus enabled without restriction to practice it and profit by its use. *Kendall* v. *Winsor*, 21 How. 322, 327, 16 L.Ed. 165; *United States* v. *American Bell Telephone Co.*, supra, page 239 of 167 U.S., 17 S.Ct. 809. To this end the law requires such disclosure to be made in the application for patent that others skilled in the art may understand the invention and how to put it to use." (289 U.S. 186, 187)

Therefore, for almost three quarters of a century the distinction between monopoly rights granted by a patent and the protection granted by states under trade secret laws has been thoroughly understood. Indeed, the two concepts have lived in harmony, together supporting the public interest in strengthening and advancing the industrial vitality of the United States.

Congress and State Trade Secret Law

It is quite apparent that Congress is not aware that it preempted trade secret law in adopting the current patent statute, passed in 1952. There is no statute enacted by Congress since that date which implies any preemption of the trade secret law of the states. Additionally, although state trade secret law was in existence for well over half a century before passage of the 1952 patent act, there is not one word in that entire statute which provides for any preemption of any trade secret law.

Furthermore, the "Commentary on the New Patent Act" which appears as part of the West Publishing Company's United States Code Annotated, prepared by Mr. P. J. Federico—one of the principal drafters of the 1952 patent act—has not one single word which would suggest that the 1952 patent act was intended to preempt state trade secret law.

In addition, and even though there is no statute passed by Congress since 1952 stating that the patent statute of that year created any preemption of the state law of trade secrets, Congress has passed numerous statutes which in other ways relate to trade secrets. This action of Congress thus leads to the inexorable conclusion that no such preemption was ever intended by Congress. (These

statutes are listed as footnote 5 on page 13 of the Petition for Writ of Certiorari in this case, and therefore are not repeated here.)

It is interesting to conjecture, however, what result would obtain in the Sixth Circuit should a criminal action be brought against an employee of the United States under 18 USC 1905 (1970) which makes it a federal crime for a United States officer or employee wrongfully to disclose a trade secret which comes to him in the course of his employment. There is, of course, nothing in that statute which makes it inapplicable to the disclosure of a trade secret of a patentable nature which has been used commercially for more than one year. If a federal employee disclosed such a trade secret, obtained by him from another in the course of his employment, he would be criminally liable. It seems obvious that the Congress would never have passed the criminal statute recited above had it been under the impression it had preempted a certain class of trade secrets from state protection when it passed the patent statute in 1952.

Preemption

The sole basis in law for the decision of the Court below was not any action of Congress but rather the question asked by this Court in *Lear, Inc.* v. *John S. Adkins*, 395 U.S. 653 (1969). At that time—and very wisely—this Court decided it should not "attempt to define in even a limited way the extent, if any, to which the states may properly act to enforce the contractual rights of inventors of unpatented trade secrets" (page 675). The Court below, improvidently we urge, rushed in to decide an issue which this Court refused to decide. In so doing the Court below obviously did violence to a

well-established body of law involving property rights of immense value, having both national and international ramifications.

If such law is to be changed, we submit it should only be done by the Congress of the United States after complete hearings. Such hearings should cover the manner in which investment is made in the creation of trade secrets and the extent of such investment. The hearings should also embrace the effect of any proposed change in trade secret law on: licensing practices and the international balance of payments; the import of foreign trade secrets into the United States; the pertinent treaties to which the United States is a party; our country's technology resource, and all other issues which would be affected by the overthrow of settled law in this area. Clearly, only the Congress can obtain the requisite information to determine whether there should be a change in the law and, if so, to what extent. No Court is in as favorable a position to do so. As this Court said in *Gottschalk* v. *Benson & Tabbot*, 93 S.Ct. 253 (1972):

> "It may be that the patent laws should be extended to cover these programs, a policy matter to which we are not competent to speak. . . . . If these programs are to be patentable, considerable problems are raised which only committees of Congress can manage, for broad powers of investigation are needed, including hearings which canvass the wide variety of views which those operating in this field entertain. The technological problems tendered in the many briefs before us indicate to us that considered action by Congress is needed."

Furthermore, this precise issue of preemption of state trade secret law by the patent statutes is before the Con-

gress at this time.[4] On September 27, 1973, President Nixon ordered the Commerce and Justice Departments to transmit to the Congress a proposed patent act. This was introduced into the Senate by Senator Scott as S.2504. The President's message of transmittal states, *inter alia,* that the legislation "would ensure that the patent laws not be construed to replace or preempt state laws concerning trade secrets so long as those state laws do not interfere with the free flow of ideas in the public domain." It should be noted that in the case at bar—as distinguished from the factual situation in *Sears* (376 U.S. 225, 11 L.Ed. 2d 661, 84 S.Ct. 784 (1964)) and in *Compco* (376 U.S. 234, 11 L.Ed.2d 669, 84 S.Ct. 779 (1964))—the courts below agree that the fact is that we are dealing with trade secrets and not with "ideas in the public domain."

CONCLUSION

This case presents a simple, and yet historic, issue. Its ramifications are of tremendous importance. The American Bar Association urges that the decision below be reversed and that any such dramatic change in state trade secret law, as attempted by the Court below in this case, be stated to be in the sole province of the Congress of the United States.

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[4] The American Bar Association has urged such legislative action, having adopted a resolution in 1970 favoring legislation making it plain that the patent laws of the Unitel States are not to be construed to preempt or to affect state or other federal law relating to trade secrets. This resolution was generated by the decision of the trial court in *Painton & Company Ltd.* v. *Bourns, Inc.* (309 F.Supp. 271). That decision was reversed by the Second Circuit Court of Appeals (442 F.2d 216).

Respectfully submitted,

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BRIEF ON THE MERITS FOR THE AMERICAN PATENT LAW ASSOCIATION, AMICUS CURIAE

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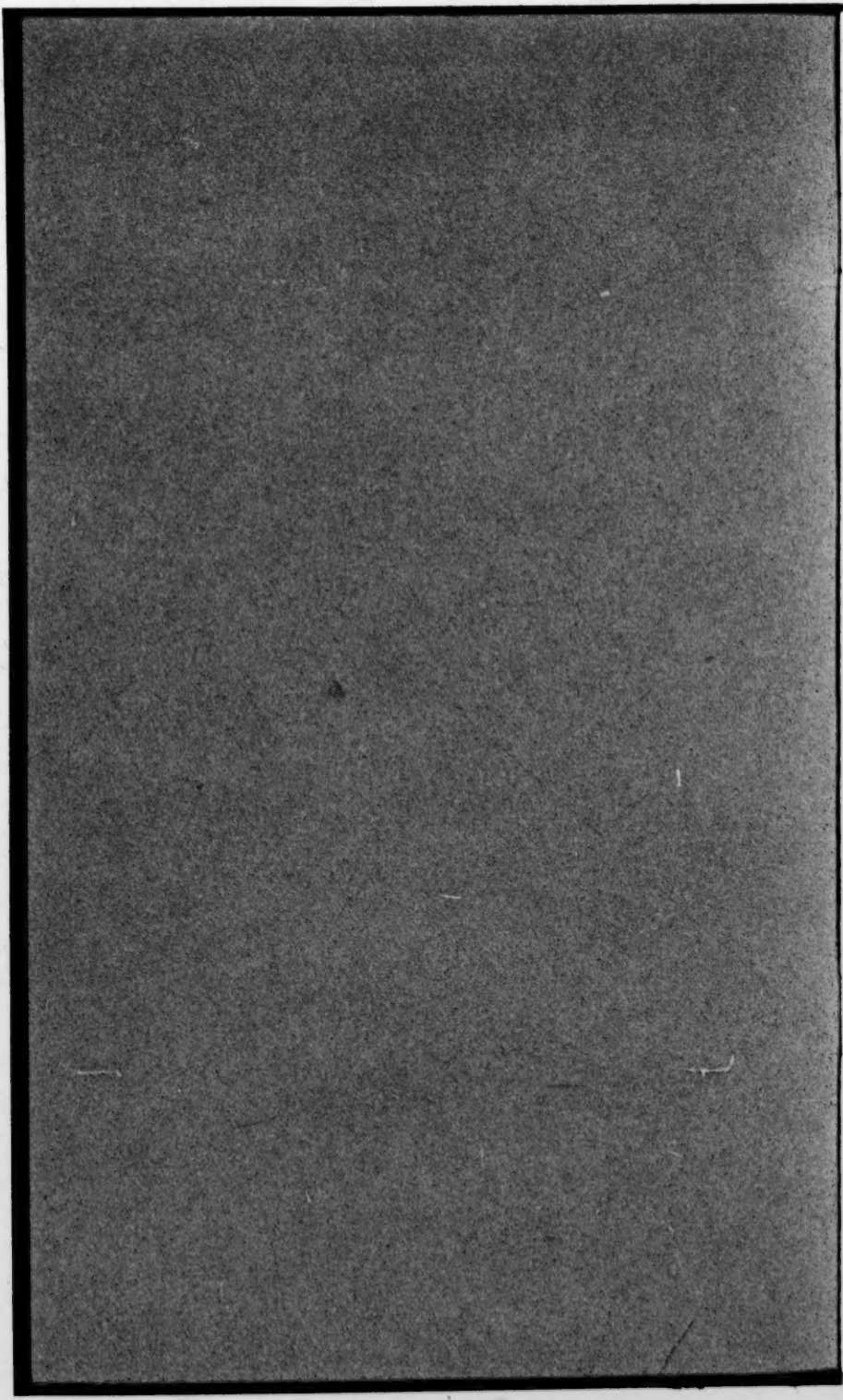

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BRIEF ON THE MERITS FOR THE AMERICAN PATENT LAW ASSOCIATION, AMICUS CURIAE

INTRODUCTION

This brief amicus curiae is submitted by the American Patent Law Association under Rule 42(2) of this Court. Letters of consent from counsel for the respective parties are on file with the Clerk of this Court. This brief is filed in support of the Petitioner and to express our reasons for believing the Court below has erred.

The filing of this brief on behalf of the Association has been authorized by the Board of Managers, which is elected by the members. The Association has over

3,800 members, including over half of the Patent Lawyers in the United States.

I.

The court below has held that the United States patent law preempts state common law trade secret protection to inventions which might be patentable. In terms, the patent statutes neither require nor preclude this holding. However, the scheme of the patent law, past and present provisions of the patent and related laws, and long standing judicial decisions, show that the court below has erred. Indeed, the omission of a preemption clause in the 1952 Patent Code (66 Stat. 792) itself demonstrates Congressional intent not to disturb the non-preemption implicit in the well developed body of technical trade secret law.

In order to obtain a patent, the inventor must file an application fully disclosing the invention. 35 USC 112. The application, and therefore the invention, is made public upon issuance of the patent. A defective or inadequate specification will not support a patent. But if the invention is patentable, and the specification and other requirements of the patent law are met, the inventor receives a "right to exclude others" subsisting for 17 years despite the disclosure of the invention. 35 USC 154. In short, the inventor must forego secrecy if he is to have a patent but he obtains a right that survives disclosure.

When an invention is kept secret, no patent law rights can be obtained. The inventor is relegated to (a) whatever benefit he can obtain from his own secret use of the invention, and (b) the limited tort or contract based state law relief he can secure against persons who discover the secret by improper means or

disclose or use the secret in violation of an obligation of confidence or a contract. 4 Restatement, Torts § 757. The date when secrecy is lost terminates the period for which state law relief is available and, at least in most instances, ends the duration of any injunctive remedy. See *Forest Laboratories* v. *The Pillsbury Company*, 452 F(2d) 621 (7th Cir., 1971).[1]

In short, the United States patent law operates in the domain of disclosed public information, and the state trade secret law operates in the domain of what is kept secret. The protection is complementary, not overlapping.[2] Except for the decision below, there

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[1] The classic analysis of the rights of owners of "unpatented inventions" is contained in Robinson, The Law of Patents (1890). Sections 867-883 of this treatise are devoted to "wrongs against unpatented inventions." These sections develop the non-preemption doctrine that has been universally applied except for the decision below and the District Court ruling in *Painton* v. *Bourns*, 309 Fed. Supp 271. (S.D.N.Y., 1970, rvsd. at 442 F(2d)(216)).

[2] The philosophical and practical difference between the state trade secret law and the patent law is brought out by the requirements for a successful trade secret case. In such case, the plaintiff must (a) identify the alleged secret, (b) prove adoption of security measures to insure secrecy, (c) show preservation of the secret by reasonable, enforceable, agreements or other confidential relationships with persons to whom the secret is revealed, (d) establish that the defendant's use of the secret stems from knowledge obtained from the plaintiff, (e) establish that the secret is not revealed by inspection or analysis of any marketed products, and (f) be prepared to negate defenses such as independent development of the trade secret by the defendant or others. There is, however, no requirement of "unobviousness" in the patent law sense. On the other hand, the plaintiff in a patent case need only prove the fact of the patent, his ownership, and the fact of infringement. It matters not whether defendant learned of the invention from plaintiff or developed it independently. He must, however, be prepared to overcome defenses such as anticipation by the prior art and obviousness over the prior art.

is no occasion for the patent laws to disclaim preemption of state trade secret law, for the two separate laws can and do coexist without conflict.

It is clear from past and present provisions of the patent law that Congress intended to maintain, not destroy, traditional trade secret protection for inventions. For example, 35 USC 24 provides for subpoenas in aid of testimony in contested matters before the Patent Office. The statute provides that no "witness shall be deemed guilty of contempt . . . for refusing to disclose any secret matter except upon appropriate order of the court which issued the subpoena." Prior to the 1952 Patent Code, the statute read "no witness shall be deemed guilty of contempt . . . for refusing to disclose any secret invention or discovery made or owned by himself." R.S. 4908, Section 45 of the 1870 Patent Act (16 Stat. 198). Significantly, this qualification was added in the 1870 Patent Act after a decade of experience under Section 1 of the 1861 Act (12 Stat. 246), which was otherwise similar.

Likewise, from 1836 until after 1903, the patent law provided for special disclosures known as caveats to be filed in the Patent Office. It required that each "caveat shall be filed in the archives of the office and preserved in secrecy." R.S. 4902, Section 40 of the 1870 Patent Act (16 Stat. 198), and Section 12 of the 1836 Patent Act (5 Stat. 117). Also, 35 USC 122 directs that "applications for patents shall be kept in confidence by the Patent Office . . . ." The Reviser's Notes state that "This section enacts the Patent Office rule of secrecy of applications."

The foregoing statutes would be superfluous if, as the court below has held, the patent law preempts protection for trade secrets involving inventions.

When the Congress has intended preemption in patent matters, it has said so. Thus 28 USC 1338 states that the jurisdiction of the Unted States District Courts in "any civil action arising under any Act of Congress relating to patents . . . shall be exclusive of the courts of the states in patent cases." Even this preemption is limited. In *Becher* v. *Contoure Laboratories,* 279 U.S. 388 (1929) a state court suit "had for its cause of action the breach of a contract or wrongful disregard of confidential relations both matters independent of the patent law" and "subject matter (of) undisclosed invention (that) did not need a patent to protect it from disclosure by breach of trust." Id. at 391. This Court refused to enjoin the state court action because the "right was independent of and prior to any arising out of the patent law." Idem. Both this Court's ruling in *Becher,* and the statute upon which it is based, are inconsistent with the preemption doctrine applied below in this case.

The theory of the ruling below is similar to the petitioner's contention in *Mazer* v. *Stein,* 347 U.S. 201 (1954). In *Mazer* it was argued that the design patent law preempted copyright law protection to works of art incorporated in utilitarian lamp bases. Rejecting this contention, this Court held that "the patentability of the statutes, fitted as lamps or unfitted, does not bar copyright as works of art." Id. at p. 217. The same principle applies in the present case. The patentability of a trade secret, or its former patentability, does not preclude common law trade secret protection. In *Mazer* v. *Stein* the copyright statute showed Congressional intent inconsistent with preemption. In the present case, the above-discussed provisions of the patent and other laws, taken in conjunction with the long-standing judicial recognition of common law

trade secret protection to inventions, show a like Congressional intent to leave such trade secret protection unaffected.

II.

The court below specifically applied its doctrine of preemption to trade secrets that once could have been patented but are no longer patentable because of more than one year's commercial use.

The doctrine of unpatentability relied upon stems from *Macbeth-Evans Glass Co.* v. *General Electric Co.*, 246 Fed. 695 (6th Cir., 1917). The court was not there concerned with whether trade secret rights did or did not exist. Rather, the suit was upon a patent, and the patent disclosure itself had terminated trade secret rights. The court did hold that there was a forfeiture of the right to patent protection because "the . . . choice made (between trade secret and patent) was deliberate and is unmistakable; it was the secret use for profit and was persisted in for years" and "If the right to secure protection of the patent laws can be effectively repudiated, it certainly has been here." Id. at p. 701. In *Metallizing Eng. Co.* v. *Kenyon Bearing*, 153 F(2d) 516 (2d Cir., 1946), Judge Learned Hand—applying the *Macbeth-Evans* doctrine—stated that the inventor "must content himself with either secrecy, or legal (patent) monopoly." Id. at p. 520.

Rather than supporting the ruling below in the present case, these decisions show that patent protection and trade secret protection are two different things—and that only an attempt **both** to use a trade secret commercially for a prolonged period and thereafter obtain a patent is contrary to the patent law.

In any event, the patent statutes do not express any preemption doctrine as to trade secrets, much less one

that applies to some secrets and not to others. Any effort to confine preemption to once-patentable inventions leads to the illogical result that an unobvious and therefore patentable trade secret is preempted from trade secret protection by the patent law whereas the less deserving obvious and unpatentable trade secret is not preempted. See 35 USC 103. This would lead to the absurd requirement that a plaintiff needs to show that the secret is trivial and unpatentable in order to prevail in a trade secret case.

The ruling below must stand or fall on whether the patent law preempts common law trade secret protection to inventions generally, not on the nature of the particular trade secrets before the court. As discussed in part I, above, there is no such general preemption.

III.

Finally, the ruling below is unsound as a matter of policy. Whether the law protects the trade secret or not, the owner often can physically maintain the secret. Where the owner cannot bear the expenses of patents and their enforcement, such secrecy can be especially attractive. An opportunity to disclose and to license, based on the quite limited protection afforded by the state laws of trade secrets, benefits both the owner of the secret and the public. Judge Friendly was right in stating that:

> "Rather than having a monopolistic tendency, like the Illinois law involved in *Sears* and *Compco*, the upholding of private agreements for the sharing of trade secrets on mutually acceptable terms tends against the owner's hoarding them." (*Painton* v. *Bourns*, 442 F.(2d) 216, 223 (2d Cir., 1971)).

An unbroken line of decisions in the one hundred and eighty-three years since the 1790 Patent Act has recognized the benefits of protecting trade secrets and has given narrow and limited protection to trade secrets—implicity denying any federal preemption. Surely, this is not the time to upset an uncountable number of business decisions and agreements based on this established law.

The judgment below should be reversed.

Respectfully submitted,

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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1973

No. 73–187

KEWANEE OIL COMPANY,

Petitioner

versus

BICRON CORPORATION, et al.

Respondents

BRIEF OF SOUTHWIRE COMPANY AS AMICUS CURIAE

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BRIEF OF SOUTHWIRE COMPANY AS AMICUS CURIAE

This brief is submitted with the written consent of all parties to the case.

INTEREST OF AMICUS CURIAE

Southwire Company, the *Amicus Curiae,* has a significant research and development effort in terms of both manpower and financial expenditure. Southwire Company has extensively licensed patented and unpatented developments both within and without the United States. Further, Southwire has in the past, and needs in the future, to rely upon numerous

confidentiality agreements with both its employees and licensees. Southwire believes that the practical economic impact of this decision was not understood by the Sixth Circuit, that the practical economic impact was not pointed out to that court by the Parties, and that there is great danger that the practical economic impact of this case will not be presented to this Court by the Parties.

ARGUMENT

Southwire Company (herein called Southwire) believes that the hard legal issues raised by this case *will* be presented adequately to the Court by others. However, a few legal points concerning the economic impact are noteworthy here.

The enforceability of contracts involving the transfer of confidential information has been upheld in this Country, by this Court, at least since *Fowler v. Park*, 131 U. S. 88 (1889). These contracts have become so numerous and involve such fantastic financial commitments by American industry in reliance upon almost a century of case law supporting their validity that any change in the law should properly come from the Congress, not from the Courts. The Congress alone, among the governmental entities, has both the power and the investigative resources to evaluate fully the practical economic impact of trade secret law and the need for, or desirability of, changing almost a century of precedent.

An interesting contrast in the treatment of trade secret law and confidentiality agreements is presented by three recent decisions of the Sixth Circuit. In *United States v. Greenwald*, No. 72-2117 (6th Cir. June 1, 1973) the court upheld Greenwald's conviction for transportation of stolen property in interstate commerce. The "property" in question was a "secret chemical formula". The court had no trouble in finding that unpatented trade secrets are assets. *Greenwald* is totally incon-

sistent with *Kewanee Oil Company v. Bicron Corporation, et al,* Nos. 71-1041, 71-1042 (6th Cir. May 10, 1973) which was decided a mere three weeks earlier by the same court. Two weeks after *Greenwald,* the Sixth Circuit decided *Screw Machine Tool Company v. Slater Tool and Engineering Corporation, et al,* No. 72-1950 (6th Cir. June 15, 1973), which held uncopyrighted matter could not be copied if the result would be unfair competition. The defendant was found in contempt of court in *Screw Machine Tool.* Thus the Sixth Circuit appears to be saying that if a confidence is betrayed, it may constitute a crime, or it may constitute contempt of a court order, but there is no *civil* remedy. If the policy in favor of upholding confidences is strong enough that betrayal of a confidence is a crime, it appears that one of the most powerful forces for enforcing confidences—a private civil action—should not be denied as it was in *Kewanee.*

The Sixth Circuit failed completely, as evidenced by its opinion, to understand the practical economic significance of its *Kewanee* decision. Southwire is a relatively small company, but it has a significant research and development effort. Southwire now owns some sixty-one United States patents and over three hundred foreign patents and has over forty-eight pending United States patent applications. In addition to the patents and patent applications, Southwire has developed significant trade secrets or "know-how". The development and licensing of patents and know-how contribute heavily to Southwire's viability as a competitor of the giant nonferrous metal companies both in the United States and abroad. Southwire now has in force technology licensing agreements with nine U. S. companies involving a gross amount of $6,140,000, and with sixteen foreign companies involving a gross amount of $14,440,000. Each of the license agreements involves the transfer of trade secrets as a significant portion thereof. No matter what the formal words of the particular agreement

specify, what foreigners are most interested in buying is our know-how, and not our patents. Patents alone are rarely saleable. Southwire has relied, and must continue to rely, upon the enforceability of confidentiality agreements to continue its research and development program. If a competitor could hire a Southwire employee, and that employee could divulge with impunity any Southwire trade secret over one year old, our research program could not possibly pay for itself. Southwire would become, in effect, a development agency for its competitors. Millions of dollars of revenue would be lost to Southwire. Also, foreign licensing would, as a practical matter, become impossible. What foreign company would take a license for trade secrets that it could obtain by simply hiring a Southwire employee? The United States' balance of payments would continually deteriorate if foreign licensing of unpatented technology became impracticable. Worse still, research and development within the United States would be drastically decreased. What company could afford to spend millions on development just to have its competitors obtain the benefits of that development without spending the time and money normally required? A research oriented company, instead of maintaining a competitive advantage, would suddenly find itself at a competitive disadvantage. Significant research and development within the United States would stop. Thereafter, in order to be competitive in a world market, United States companies would be forced to buy technology from abroad—if any foreign companies would license within the United States, because United States entities could not enforce confidentiality.

The practical impact of the Sixth Circuit's *Kewanee* decision could not have been thoroughly considered by that court. The potential for economic harm to the Country as a whole is unparalleled. Southwire is but one company. Magnify the impact upon Southwire and project the impact upon the national economy, and it becomes abundantly clear that

billions or hundreds of billions of dollars annually could be involved. This Court should reverse the Sixth Circuit and defer to the Congress any changes in a century of precedent on an issue with such a momentus potential impact upon this Nation.

CONCLUSION

For the foregoing reasons, *Amicus Curiae*, Southwire Company, respectfully requests that this Court reverse the court below.

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that copies of this Brief were served upon the Parties through their attorneys of record in accordance with Rule 33 of the Supreme Court of the United States, revised rules, on November 21, 1973.

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BICRON CORPORATION, et al.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

BRIEF *AMICUS CURIAE* FOR BURROUGHS CORPORATION

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BRIEF *AMICUS CURIAE* FOR BURROUGHS CORPORATION

PRELIMINARY STATEMENT

Burroughs Corporation (hereinafter Burroughs) is filing this brief *amicus curiae* on the merits in support of the petitioner, Kewanee Oil Company, pursuant to Rule 42(2) of the Rules of the Supreme Court of the United States. The requisite written consents of the parties are on file with the Clerk of the Court. The matter is before the Court on a writ of certiorari to the United States Court of Appeals for the Sixth Circuit which reversed the decision of the District Court for the Northern District of Ohio, Eastern Division, and which held that Kewanee Oil Company did not have a protectable property right in certain of its trade secrets.[1]

[1] *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 178 U.S.P.Q. 3 (6th Cir. 1973). The District Court decision was not reported.

QUESTIONS PRESENTED

1. Whether the U.S. Constitution and the federal patent laws enacted thereunder preempt state trade secret law prohibiting the wrongful appropriation of secret technology to the extent it is encompassed within the categories of patentable subject matter as defined in 35 U.S.C. § 101.

2. Whether such state trade secret laws are in conflict with the policies and objectives underlying the federal patent laws and are therefore required to be struck down under the Supremacy Clause of the U.S. Constitution even though Congress did not express an intent to preempt such trade secret laws when enacting the federal patent laws.

INTEREST OF *AMICUS CURIAE*

Burroughs was incorporated in 1905, and is engaged in the business of designing, manufacturing and marketing a comprehensive range of products for the recording, storing, computing, processing and communicating of data. This business involves a wide variety of research and development efforts since success in this dynamic industry depends upon innovation, invention and technological growth. Burroughs, including its world-wide subsidiaries, has considerable investments in manpower and capital devoted to the promotion of technological development. Approximately 1800 employees are involved directly in research and development related activities and many thousands of additional employees are exposed in some manner to proprietary information.

For the year which ended December 31, 1972, the dollar value of Burroughs' world-wide revenue amounted to $1,053,000,000. For this same year approximately 51 million dollars was spent on research and development related activities. For the current year over 60 million dollars will be spent for research and development, and over 80 million dollars is being budgeted for the year 1974. Burroughs has invested hundreds of millions of dollars in research and development activities and will continue to invest in research and development in the future. In order to protect this investment, Burroughs has relied not only on the patent laws, but also on the law of trade secrets. Accordingly, Burroughs is interested in maintaining the trade secret laws intact to protect both past and future investments.

Burroughs is not currently involved in any action in which it is asserting the theft of its trade secrets, and it is not in any way affiliated with either of the parties to this particular action. However, Burroughs has a deep interest in the proper resolution of the legal questions presented in this case not only because of the impact the decision below will have upon Burroughs, but also because of the impact it will have upon all technology-oriented businesses, upon the economy, and upon the United States as a whole.

SUMMARY OF ARGUMENT

The decision below, which refused to afford protection under the trade secret law of the state of Ohio, erodes a vast body of trade secret law which has coexisted with the patent laws of this country for well over a hundred years. Congress, prior decisions of this Court and decisions in other courts have unanimously recognized trade secrets and the owner's right to protect such secrets from wrongful appropriation. The decision below is extremely broad because it encompasses all categories of subject matter coming within the scope of the patent laws, and because nearly every trade secret of any value is eventually commercialized. Many agreements involving trade secrets were entered into in reliance upon established trade secret law. The decision below renders uncertain this body of law and the enforceability of these agreements.

Technology-oriented industries investing in research and development activities require an assurance of some return on their investment. The preemption of state trade secret laws removes a large portion of the protection upon which they have previously relied. The inability to safeguard these investments may lead to a cutback in research and development investments or to a misallocation of research and development funds by redirecting expenditures to security measures aimed at protecting their discoveries. Such a cutback may weaken the technological base of the United States, injure its economy, and destroy its position as the world's technological leader.

The power to enact laws prohibiting the misappropriation of secret technological information was neither delegated to the federal government for its exclusive use nor was it expressly denied the states by the U.S. Constitu-

tion. The existence of such a power in the states is not contradictory and repugnant to the existence of a similar power in the federal government.

Congress, in enacting the federal patent laws, gave no indication, either express or implied, of an intent to preempt the entire field of law relating to inventions and discoveries. Congress, on numerous occasions, has expressed a contrary intent by recognizing the existence of trade secrets and the importance of protecting them.

State trade secret laws are not in conflict with the policies and objectives underlying the federal patent laws and hence are not required to be struck down under the Supremacy Clause of the Constitution. The federal patent laws provide the inventor with a right to exclude all others from making, using and selling his invention for a limited period of time. Trade secret law, on the other hand, offers a desirable alternative even though it provides only a very limited form of protection to the trade secret owner. He has no right to exclude all others from using his trade secrets but only has a cause of action against one who has wrongfully appropriated his secret. In practice, the patent laws operate to stimulate research and development, encourage innovation, reward the inventor, and benefit the public through commercialization of new and improved products. State trade secret laws have similar practical effects and are compatible with the constitutional purpose of promoting the progress of science and the useful arts.

The court below erred in its assumption that its result was compelled by prior decisions of this Court. According to these prior decisions, all ideas which are in the public domain are subject to free use by all, and states may not grant a patent-like form of protection on an idea

in the public domain. Existing trade secret law is in complete harmony with the prior decisions of this Court, since trade secret protection is not granted for an alleged secret which has fallen into the public domain.

ARGUMENT

I.

THE *KEWANEE* HOLDING PLACES AN UNDUE BURDEN ON TECHNOLOGY-ORIENTED INDUSTRIES.

A. The Decision Below Usurps The Power Of Congress And Judicially Legislates Away A Vast Body Of Existing Trade Secret Law.

Trade secret laws have been recognized by Congress, the states and the courts. The lower court has acknowledged that the common law in most states includes cases recognizing the protectability of trade secrets.[2] The lower court further acknowledges that this Court has approved the protection of a trade secret, if not as a property right, then at least via the enforcement of confidential relationships.[3] Congress has recognized the existence of trade secrets, the right to protect trade secrets, and impliedly,

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[2] "Without the numerous citations of cases we suggest that instances of protection of trade secrets by the courts may be found in most of the states of the United States." *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 1081, 178 U.S.P.Q. 3, 8 (6th Cir. 1973).

[3] "In DuPont Powder Co. v. Masland, 244 U.S. 100, 375 S. Ct. 575, 61 L. Ed. 1016, the Supreme Court of the United States approved protection of a trade secret." *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 1081, 178 U.S.P.Q. 3, 8 (6th Cir. 1973). See also *Becher v. Contoure Laboratories, Inc.*, 279 U.S. 388 (1929); *Board of Trade v. Christie Grain & Stock Co.*, 198 U.S. 236 (1905); and *United States v. Dublier Condenser Corp.*, 289 U.S. 178 (1933).

the ability of trade secret laws and the federal patent laws to function effectively to protect the same subject matter. This congressional recognition is evidenced, for example, by the ratification of several treaties[4] and the enactment of numerous legislative acts[5] which expressly recognize trade secrets. Since 1965, many states have enacted criminal laws dealing with the misappropriation of trade secrets.[6] Further, as acknowledged by the lower court, its deci-

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[4] The following treaties recognize the existence of trade secrets:

Agreement with Belgium on Patent Rights and Technical Information, Oct. 12, 1954, [1954] 5 U.S.T. 2318, T.I.A.S. 3093;

Agreement with Denmark on Patent Rights and Technical Information, Feb. 19, 1960, [1960] 11 U.S.T. 148, T.I.A.S. 4423;

Agreement with Federal Republic of Germany on Patent Rights and Technical Information, Jan. 4, 1956, [1956] 7 U.S.T. 45, T.I.A.S. 3478;

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Agreement with United Kingdom of Great Britain and Northern Ireland on Patent Rights and Technical Information, Jan. 19, 1953, [1953] 4 U.S.T. 150, T.I.A.S. 2773.

[5] Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters*, 46 N.Y.U. L.Rev. 17, 32, n. 67 (1971).

[6] R. M. Milgrim, Trade Secrets, § 1.10[1] (1973).

sion is in direct conflict with the law in other circuits.[7] These laws represent a vast and fairly uniform system of trade secret law presently existing in the United States.

Billions of dollars are invested annually in research and development activities.[8] While it is true that patents are available to protect a portion of the resultant technology, there still remains a substantial portion of valuable information, data and know-how which can only be protected under state trade secret laws. It may be argued that a considerable body of trade secret law is still available to protect this resultant technology since the court below found that " . . . the trade secrets in question relating to the processes, procedures and manufacturing techniques of Harshaw, as conceded by counsel for Kewanee, were 'patentable', that is, appropriate subjects for consideration under the provisions of Title 35 U.S.C. § 101".[9] *Kewanee Oil Co. v. Bicron Corp.*, 478 F2d 1074, 1078, 178

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[7] "We recognize that our holding in this case is in conflict with the previously cited decisions of other Circuits, Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964), cert. den. 383 U.S. 934, 86 S.Ct. 1061, 15 L.Ed. 2d 851 (1966), rehearing denied 384 U.S. 914, 86 S.Ct. 1333, 16 L.Ed. 2d 366 (1966); Dekar Industries, Inc. v. Bissett-Berman Corp., 434 F.2d 1304 (9th Cir. 1970), cert. den, 402 U.S. 945, 91 S.Ct. 1621, 29 L.Ed. 2d 113 (1971); Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163 (5th Cir. 1969); Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2nd Cir. 1971). . . ." *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 1086, 178 U.S.P.Q. 3, 12 (6th Cir. 1973).

[8] A recent survey of the R&D industry predicts a total research and development expenditure for the current fiscal year, 1973, in excess of $31 billion. Plant, *$31-Billion for Research*, Ind. Res. 42 (Jan. 1973).

[9] 35 U.S.C. §101 (1952) defines the categories of subject matter which come within the jurisdiction of the federal patent laws as follows: "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." These statutory categories are broadly construed and most of the fruits of today's research and development efforts are encompassed within this broad definition.

U.S.P.Q. 3, 5 (6th Cir. 1973). While the court below seemed to consider this limitation to be a substantial narrowing of the range of trade secrets affected by its decision, such is not the case since most trade secrets in existence today deal with technological information relating to a process, machine, article of manufacture or composition of matter and therefore are encompassed within the categories of patentable subject matter as defined in 35 U.S.C. §101 (1952). Many trade secrets that are encompassed within the categories of patentable subject matter would not successfully pass examination[10] by the United States Patent Office and issue as valid and enforceable patents. However, the lower court did not limit the impact of its decision to only those trade secrets that could pass such an examination.

Even if the lower court's decision can be construed to limit its effect to only those trade secrets that could pass such an examination, the ambiguities inherent in the decision below pose many unanswered questions. Who is qualified to answer the difficult question of whether or not a given trade secret could pass the examination? Must the proprietor file a patent application in order to have an already overburdened United States Patent Office make this determination? If a patent application must be filed, at what point in the prosecution of a patent application may an applicant accept the Patent Office's determination that the subject matter is unpatentable and seek protection via

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[10] One of the usual tests applied during the examination of patent applications by the U.S. Patent Office is the so-called "obviousness" test as defined in 35 U.S.C. §103 (1952): "A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made."

state trade secret laws? If the Patent Office initially rejects the application, is the applicant free to assume that the subject matter was not patentable and therefore proceed as though it was protectable as a trade secret? Must the applicant prosecute the application through a final action; through a decision from the Board of Appeals; through a decision from the Court of Customs and Patent Appeals or appropriate district court; or must he prosecute through an appeal to this Court? How many inventors, or employers for that matter, will have the necessary time and funds to follow this procedure, and even if they were financially able, should they be required to do so? If the proprietor of a trade secret has not filed a patent application and brings an action in the state courts, should the state court be given the responsibility of determining whether or not the trade secret would have passed the examination of the United States Patent Office? These unanswered questions are so substantial that the practical effect of even a limited, narrow construction of the lower court's decision would be to deny industry the ability to depend upon the state laws for the protection of trade secrets.

It may also be argued that the lower court tried to further narrow its decision by limiting it to only those trade secrets which have been in commercial use[11] for more than

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[11] 35 U.S.C. §102 (1952) provides that "A person shall be entitled to a patent unless—

. . . .

(b) . . . the invention was . . . in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, ..."

This provision in the federal patent laws prevents an inventor from maintaining his invention as a trade secret while commercializing it for more than one year and then filing a patent application if he believes his secret will be discovered or for any other reason. This provision gives the inventor who commercializes his invention one year during which he must elect either to seek patent protection or to forego his rights under the federal patent laws.

one year prior to the commencement of the suit. The proprietor of a trade secret normally intends to recoup his research and development expenses by commercially exploiting his innovation through his own use or that of his licensee. Accordingly, most trade secrets of any value will eventually be put into commercial use, and come within the scope of the decision below after the lapse of one year. Limiting the time for recouping research and development investment to one year would substantially erode the value of the trade secret laws. Therefore, this second attempt by the lower court to narrow the effect of the decision is also ineffective for most practical business situations.

If the far-reaching changes made by the lower court are in fact required, Congress is the proper body to effect such changes. This Court has recently considered the decision of a lower court which would have had a great impact upon the protection of proprietary rights in a complex technological field and concluded: ". . . considerable problems are raised which only committees of Congress can manage, for broad powers of investigation are needed, including hearings which canvass the wide variety of views which those operating in this field entertain. The technological problems tendered in the many briefs before us indicate to us that considered action by the Congress is needed." *Gottschalk v. Benson,* 409 U.S. 63. 74 (1972).

B. The Decision Below And Its Accompanying Penumbra Of Uncertainty Will Have A Severe Impact Upon Business Activities And Will Operate To Hinder The Progress Of Science And Technology.

All technology-oriented corporations with world-wide interests are immediately and directly affected by the decision below. Burroughs, for example, is currently a party to many existing agreements involving the protection of proprietary information, but the validity of these agreements has been cast in doubt by the decision below.

The types of business agreements relating to proprietary information are many and varied. Most technology-oriented business organizations offer some type of agreement regarding employment to at least their technical personnel. In a typical agreement, an employee who is exposed to trade secret or confidential information, or who is hired to invent or improve products, agrees not to disclose proprietary information acquired on a confidential basis without the permission of the employer. Frequently he also agrees to assign his inventions and ideas to his employer who supports his inventive efforts. Increased compensation, technical training and opportunities for advancement within the business organization provide the *quid pro quo* for the employee's agreement.

Many provisions of these agreements may be unenforceable under the decision below which permitted the employees to leave the company from which they had acquired proprietary trade secret information on a confidential basis during the course of their employment and to immediately set up their own corporation founded on these misappropriated secrets in direct competition with

their former employer. The lower court ruled that state trade secret law could not be used to stop such piracy and appeared to imply that this served a higher good associated with the concept of free competition. The decision below is more likely to have the opposite effect. The inability to protect technology and to secure a return on research and development investments, will likely result in the diminution of a prime economic incentive for research and innovation and may eventually lead to a cutback in research and development expenditures or to a misallocation of available resources by redirecting expenditures to security measures designed to guard self-developed technology. As security within the business organization is tightened, the dissemination of technology within the organization will be restricted resulting in inefficiency and a slow-down in the rate of technological progress. This cannot further free competition, but clearly will serve instead to hinder the progress of science and the useful arts.

Another area of uncertainty fostered by the decision below is in the numerous technology-oriented business organizations which employ trade secret-type agreements in vendor-vendee situations. These organizations frequently have suppliers build sub-assemblies or devices in accordance with the organization's proprietary information and contractually obligate the supplier and his employees to protect the organization's proprietary information. Under the decision below, the supplier and his employees are free to use the secret information to make and sell devices to others, or even to sell the valuable and costly information to the organization's competitors. It would appear that only large corporations capable of fulfilling all of their needs in-house would be able to effectively compete since they would not be forced to rely on others for sup-

plying the necessary parts or sub-assemblies for their products. However, even the large, self-sufficient corporations are effected by the risk that the corporation's employees will steal its trade secrets.[12]

Similarly, it may be noted that as a result of many of today's complicated technical systems, field tests must be conducted by customers, or at the customer's location. If such tests cannot be conducted on a confidential basis, competitors may acquire test data and other proprietary information without restriction.

KNOW-HOW LICENSES

Many technology-oriented business organizations are operating today under trade secret agreements or know-how licenses. Billions of dollars in royalty payments are paid and received for such licenses annually.[13] Indeed, such licenses often form the only source of income for small research and development oriented businesses. Under the decision below, businesses receiving royalty payments under such licenses may not be able to collect even

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[12] International Business Machines Corp. has proven damages resulting from the theft of its trade secrets by its former employees and has been awarded $21.9 million on that basis in a recent decision. *Telex Corp. v. International Business Machines Corp.*, Nos. 72-C-18 and 72-C-89 (D.C.N.D. Okla., Sept. 17, 1973).

[13] United States business organizations received from abroad some $3.1 billion in royalty payments and paid to foreign organizations some $276 million in royalty payments for the year 1972. 53 U.S. Dept. of Commerce, Survey of Current Business 42, No. 9, September 1973. While the entire amount is not attributable to trade secret licenses, a considerable portion is, and furthermore, this figure relates only to foreign licenses. It can be assumed that a much larger dollar amount is involved in licenses between United States business organizations.

after costly and extended litigation. Companies which are obligated to make royalty payments under such agreements may refuse to pay and may choose to destroy the license and the existence of the trade secret by publicly disclosing the trade secrets themselves. Finally, there is a substantial risk that a prospective licensee will be less inclined to take a royalty bearing license under a trade secret so long as the less costly opportunity exists for hiring one or more of the licensor's employees who are in possession of such trade secrets. Alternatively, a prospective licensee may find it easier and less expensive to simply steal the trade secret.

COMPUTER PROGRAMS

Computer programs or software represent a considerable portion of the total cost of a computer system and any given program represents a substantial investment of time and capital. Many computer corporations and small businesses specializing in developing computer programs have elected to market their programs under an agreement licensing the customers' use and limiting the dissemination of the programs. This Court in *Gottschalk v. Benson,* 409 U.S. 63 (1972), held that a computer program directed to a mathematical algorithm could not be patented where the effect of the patent would be to cover all practical uses of the mathematical algorithm itself. This would take certain computer programs out from under the scope of the decision below since they are not encompassed within the category of patentable subject matter defined by 35 U.S.C. § 101 (1952). However, the dividing line between those types of programs that are not patentable and those that should be patentable has not yet

been established by Congress in accordance with the recommendation of this Court in *Gottschalk v. Benson*. Until such time as Congress acts, many businesses which rely upon trade secret protection will have to continue their practice with respect to both types of programs even though only some programs would be protectable as a result of the decision below. If such programs can be disseminated or misused with impunity, many businesses, which depend on such programs for a significant portion of their income, will suffer an impairment of their ability to compete, and the amount of competition in the computer industry will be even further reduced.

NATIONAL ASSET

Many businesses have competitors in foreign countries and will be impacted by the international aspects of the decision below. The inability to stop the theft of trade secrets and to control the flow of technical information leaving this country could ultimately lead to a substantial weakening of our position as the world's technological leader. United States companies have billions of dollars invested in research and development activities[14] and license their resulting technology to others or are licensed under another's technology. The ability to license existing domestic technology in foreign countries constitutes a vast national asset. Foreign corporations will have a reduced incentive to take licenses under U. S. technology on a royalty bearing basis since it will be far easier and less expensive to merely hire another's trusted employees or otherwise misappropriate the desired trade

[14] Plant, *supra* note 8, at 8.

secrets.[15] The decision below results in a lessening of the value of this asset with corresponding detrimental effects upon the competitive position of the United States in markets throughout the world, upon our already strained balance of payments,[16] and upon the very health and vitality of our American economy.

Further, foreign corporations may refuse to license domestic corporations because the domestic corporations cannot guarantee the security of the trade secret and, once the security is breached, the trade secret is lost. The inability of domestic corporations to secure technology from abroad further operates to stifle technological growth and development and to hinder the progress of science and the useful arts.

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[15] Even with the current availability of trade secret protection, foreign corporations have been implicated in the misappropriation of trade secrets valued at millions of dollars; for example, a recent theft of trade secrets from the Ford Motor Company related to glass manufacturing techniques valued at over a million dollars. *United States v. Akfirat*, No. 4-80300 (D.C.E.D. Mich., filed August 30, 1973).

[16] Since the yearly revenue received from licensing foreign businesses under domestic technology exceeds $3.1 billion, while the outflow of royalties paid by domestic organizations for foreign technology is only $276 million, the total loss to the American economy could exceed $2.8 billion. 53 U.S. Dept. of Commerce, Survey of Current Business 42, No. 9, September, 1973. Compensating for the proportion of this amount attributable to patent and trademark royalties, we may reasonably conclude that over $1.5 billion are lost to the American economy. Milgrim, *Sears to Lear to Painton: Of Whales And Other Matters*, 46 N.Y.U. L. Rev. 17, 26, n. 40 (1971).

OTHER POLICY CONSIDERATIONS

There is justifiable concern over the possible effect of this decision on state and federal criminal laws dealing with the theft of trade secrets. This decision affects the determination of what is protectible as a trade secret, and it may be that such laws could be rendered void for vagueness or preempted by the policy behind the federal patent laws. The decision of the lower court has already been cited in a recent criminal action brought in the State of Michigan[17] in which the defendant is being prosecuted under the Michigan trade secret theft statute, CL 1970, § 752.772.[18] The defendant in that case moved for dismissal of the complaint against him, urging that the statute was void because it conflicts with the patent laws of the United States.

The type of permissiveness encouraged by the decision below may lead to a further deterioration in commercial morality, to a lessening of a citizen's obligation to respect the property rights of others, and to a possible substitution of trade secret thievery in place of legitimate research and development efforts. A corporation which attempts to operate in this environment will find itself at a commercial disadvantage if its competitors are free to deal

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[17] *People v. Hull*, No. 2610 (Troy Mun. Ct., filed March 30, 1973).

[18] Mich. C.L. 1970, §752.772 provides: "Any person who, with intent to deprive or withhold from the owner thereof the control of a trade secret, or with an intent to appropriate a trade secret to his own use or to the use of another, steals or embezzles an article representing a trade secret or without authority makes or causes to be made a copy of an article representing a trade secret, is guilty of a misdemeanor and shall be fined not more than $1,000.00 or imprisoned for not more than 1 year, or both."

in trade secret thievery and in that brand of "instant technology" which is achieved by hiring another's trusted employee and using the proprietary knowledge which the employee gained through his position of confidence and trust.

II.

THE U.S. CONSTITUTION DOES NOT PROHIBIT THE STATES FROM ENACTING LEGISLATION PROTECTING TRADE SECRETS; SUCH LEGISLATION WAS NOT PREEMPTED WHEN CONGRESS ENACTED THE FEDERAL PATENT LAWS; AND TRADE SECRET LAWS DO NOT CONFLICT WITH THE POLICIES AND OBJECTIVES UNDERLYING THE FEDERAL PATENT LAWS.

A. The States Have Not, Under The U.S. Constitution, Relinquished To The Federal Government, For Its Exclusive Exercise, The Power To Enact Laws Affecting Inventions And Innovations.

In *Goldstein v. California*, 412 U.S. 546 (1973), which was decided after the decision of the lower court in this action, this Court enunciated the test to be applied in resolving the preemption issue. *Goldstein* is particularly pertinent since it involved U. S. Const. art. I, § 8, cl. 8,[19] the very constitutional clause involved in the present case.

A state statute proscribing tape piracy was challenged in *Goldstein* as violative of U. S. Const. art. I, § 8, cl. 8 and of the federal statutes enacted thereunder. This Court held that this clause does not expressly or by inference vest all power to grant copyright protection exclusively in the federal government, nor did the state statute

[19] "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;" U.S. Const. art. I, § 8, cl. 8.

conflict with the federal copyright laws so as to fall under the Supremacy Clause[20] of the U. S. Constitution.[21]

Initially, this Court inquired as to whether the state statutes were beyond the powers which the states reserved in our federal system.[22] If the states have relinquished such powers to the federal government for its exclusive exercise, they cannot exercise these powers.[23] This Court, in *Goldstein,* applied the three tests of Alexander Hamilton which pronounced that the states retain all rights and powers unless (1) the Constitution expressly grants an exclusive authority to the federal government; (2) the Constitution grants a particular power to the federal government and simultaneously prohibits the exercise of a similar power by the states; or (3) it grants a power to the federal government to which a similar power in the states would be absolutely and totally contradictory and repugnant.[24]

While the lower court in the present case did not have the opportunity to apply these tests since *Goldstein* was decided after the decision below, it is seemingly appropriate to apply them by analogy to the facts of *Kewanee.* The first two tests present no barrier to the State's enactment of trade secret laws. Art. I, §8, cl. 8 of the U.S.

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[20] "This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding." U.S. Const. art. VI, cl. 2.

[21] *Goldstein v. California,* 412 U.S. 546, 571 (1973).

[22] *Id.* at 552.

[23] *Id.*

[24] *Id.*

Constitution, granting to Congress the power to grant patents for certain inventions and innovations, does not expressly provide that such powers shall vest exclusively in the federal government nor does the U. S. Constitution expressly provide that such power shall not be exercised by the state.[25] The third test requires examination of the manner in which the power to grant patents operates in our federal system.[26] Specifically, it requires the examination of the differences between those situations in which the exercise of the power by the federal government and the states, or by the states alone, may possibly lead to conflicts, and those situations where conflicts will necessarily arise.[27] This Court specifically stated that "'It is not . . . a mere possibility of inconvenience in the exercise of powers, but an immediate constitutional repugnancy that can by implication alienate and extinguish a pre-existing right of [state] sovereignty.' The Federalist, No. 32, at 243." *Goldstein v. California,* 412 U.S. 546, 554 (1973).

Art. I, §8, cl. 8 of the U. S. Constitution has as its objective the promotion of the progress of science and the useful arts.[28] One objective of this clause was clearly to facilitate the granting of rights national in scope, but, as recognized in *Goldstein,* the fact that this clause recognized the potential benefits of a national system does not indicate that all discoveries of inventors are of national interest or that state legislation is, in all cases, unneces-

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[25] *Id.* at 553.

[26] *Id.*

[27] *Id.* at 554.

[28] *Id.* at 555.

sary or precluded.[29] The patents granted by the states in the 18th century show, to the contrary, a willingness on the part of the states to promote those portions of science and the arts which were of local importance.[30] Since the subject matter to which this clause is addressed may be of purely local importance and not worthy of national attention or protection, there can be no unyielding national interest which requires an inference that state power to legislate in related areas has been relinquished to exclusive federal control.[31]

The exercise of the power by one state to enact trade secret laws which may involve patentable subject matter will not prejudice the interest of other states.[32] This Court in *Goldstein* held that a state copyright law no more prejudiced the interest of other states than other state monopolies, such as park concessions or lotteries.[33] Accordingly, by analogy, existing trade secret laws of one state do not prejudice the interest of other states. Further the trade secret laws of each state will serve to stimulate invention and innovation within each state and, hence, promote the progress of science and the useful arts—the very objective of the constitutional grant.[34]

The concurrent exercise of powers affecting inventions and innovations by both Congress and the states will not necessarily and inevitably lead to difficulty[35] and, if difficulties do arise, Congress remains free to eschew all such

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[29] *Id.* at 556.

[30] *Id.* at 557.

[31] *Id.* at 558.

[32] *Id.*

[33] *Id.*

[34] *Id.*

[35] *Id.* at 559.

protection.[36] Since all of these tests have been satisfied, it is reasonable to conclude that the states have not relinquished to the federal government all power to enact trade secret laws involving the protection of inventions or discoveries.[37]

B. The Vast Body Of Existing State Trade Secret Law Was Neither Expressly Nor Impliedly Preempted By Congress In Enacting The Federal Patent Laws.

While it is possible for Congress to expressly or impliedly preempt state trade secret laws, Congress has given no express indication of an intent to preempt the vast body of pre-existing and long-established state laws relating to trade secrets.[38] Further, Congress has not implied that the federal patent laws preempt the state trade secret laws, since it has enacted legislation both before and after the enactment of the patent laws which expressly recognizes the existence of trade secrets and the importance of protecting them.[39] Indeed, the patent laws themselves show some evidence of an intent to protect trade secrets by providing that pending patent applications

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[36] *Id.*

[37] *Id.* at 560.

[38] While it does not offer positive proof, it is interesting to consider that no one has pointed to a single indication of an express congressional intent to preempt; that several proposed revisions to the patent laws containing preemption provisions have failed to pass; and that the most recent proposed patent law revision, yhich has full Administration support, contains an express provision specifying that the patent laws do not preempt rights or obligations arising by operation of state laws concerning trade secrets. S. 2504, 93d Cong., 1st Sess. §301 (1973).

[39] Milgrim, *supra* note 5 at 7.

be preserved in secrecy[40] thereby preserving the applicant's right to trade secret protection pending publication of the issued patent.[41]

C. State Trade Secret Laws Do Not Stand As An Obstacle To The Accomplishment And Execution Of The Full Purposes And Objectives Of Congress In Enacting The Patent Laws And Hence Are Not To Be Struck Down Under The Supremecy Clause.

The purpose behind U. S. Const. art. I, §8, cl. 8 is to promote the progress of science and the useful arts. The federal patent laws represent the means enacted by Congress for achieving this end. The patent laws grant to an inventor the right to exclude all others from making, using and selling his invention for a period of seventeen years in exchange for the dedication of his invention to the public upon the expiration of the patent. The patent laws provide the inventor with the broad right to exclude all others from the practice of his invention for the term of the patent. State trade secret laws, on the other hand, provide no such exclusionary rights. The owner of a trade secret only has a cause of action against those who

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[40] 35 U.S.C. §122 (1952) provides as follows: "Applications for patents shall be kept in confidence by the Patent Office and no information concerning the same given without authority of applicant or owner unless necessary to carry out the provisions of any Act of Congress or in such special circumstances as may be determined by the Commissioner." Rule 14(a) of the United States Patent Office Rules of Practice, which was promulgated under 35 U.S.C. §122 (1952), provides that pending applications be preserved in secrecy.

[41] It may also be interesting to note that the United States Court of Appeals for the Second Circuit held in *United States v. Bottone*, 365 F.2d 389 (2d Cir.) *cert. denied* 385 U.S. 974 (1966), that Congressional intent requires that the Federal Stolen Property Act, 18 U.S.C. § 2314 (1968), be made applicable to the theft of trade secrets. See also *United States v. Greenwald*, 479 F.2d 320 (6th Cir. 1973).

would steal his secret or use it in such a manner so as to breach a confidential relationship. The trade secret owner cannot prevent any person from practicing the same trade secret if such person independently develops it or discovers it through legitimate means. Should the trade secret become public, the whole world is free to use it. In order to protect his secret, the owner must take measures to ensure that the secret is in fact maintained in secrecy and he is not aided by the presumption of validity which accompanies the issuance of a patent. The nature and scope of the protection afforded under state trade secret laws are different from the nature and scope of the protection afforded under the patent laws. The practical results sought to be achieved by the patent laws are not frustrated by the effect of state trade secret laws. The patent laws encourage research and development efforts, stimulate invention and innovation, reward inventors and innovators, and benefit the public through the commercialization of new and improved products by the owner or by his licensee. The enforcement of state trade secret laws similarly benefits the public and produces results which are compatible with the overall primary purpose and objective of promoting the progress of science and the useful arts.

In summary, the state has the power to enact trade secret laws which affect inventions and discoveries, and neither the United States Constitution nor the patent laws enacted by Congress preempt state trade secret laws; nor do such laws conflict with the policies and objectives underlying the patent laws so as to be struck down under the Supremacy Clause of the Constitution. The two systems offer alternative types of protection differing in nature and scope, but achieve practical results which are compatible with one another—both operating to promote the progress of science and the useful arts.

III.

THE COURT BELOW ERRONEOUSLY CONCLUDED THAT ITS RESULT WAS COMPELLED BY PRIOR DECISIONS OF THIS COURT.

The decision below rests precariously on the assumption that its result was "compelled"[42] by the preemption doctrine enunciated in prior decisions of this Court. One of the earliest cases relied on by the court below was *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111 (1938), which involved a suit by the National Biscuit Company against Kellogg for alleged unfair competition. National Biscuit charged that Kellogg's use of the term "Shredded Wheat" and the use of the pillow-shaped biscuit amounted to both a violation of National Biscuit's trademark and a wrongful "passing-off" under state unfair competition laws. National Biscuit was the successor in title to the original shredded wheat patents which had expired. This Court found that the term "shredded wheat" was generic and that the shape of the biscuit was functional. The basic issue was whether the law of unfair competition could be used to exclude anyone from practicing the teachings of an expired patent. This Court held that such use of the law of unfair competition was in conflict with federal patent policy which permitted the full and free use of all patented ideas upon the expiration of the patent.

Kellogg did not involve trade secrets but dealt with a blatant attempt to extend the term of patent protection beyond the expiration date of the patent and thereby remove from the public domain something which had pre-

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[42] *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 1086, 178 U.S.P.Q. 3, 11 (6th Cir. 1973).

viously been in general circulation and had been expressly dedicated to the public in exchange for the grant of a patent. It is well-settled in the law of trade secrets today that no protection may be granted on any idea which has been in general circulation and is in the public domain. Since *Kellogg* involved subject matter which was within the public domain, its holding is completely compatible with existing trade secret law.[43]

The decision below placed even greater reliance upon the two most frequently cited preemption doctrine cases decided by this Court—*Sears Roebuck & Co. v. Stiffel,* 376 U.S. 225 (1964), and *Compco Corp. v. Day-Brite Lighting, Inc.,* 376 U.S. 235 (1964). In *Sears,* Stiffel pioneered the development of a pole lamp and obtained a design patent. Sears copied the design of the lamp and began to sell its copies for less than the price offered by Stiffel. Stiffel sued Sears for patent infringement and unfair competition. The lower court held the patent invalid, but allowed recovery under the Illinois law of unfair competition. This Court refused to allow a recovery under that state's unfair competition laws and held that a state cannot grant patent-like protection on an unpatented device which is in the public domain, because to do so conflicts with the policy behind the United States patent laws. *Compco* involved a similar factual situation wherein Compco copied the lighting fixtures developed by Day-Brite. The two cases enunciate a common proposition that the federal law requires that all ideas in general circulation be dedicated to the public, unless they are protected by valid patents.

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[43] R. M. Milgrim, Trade Secrets, § 2.03 (1973) and Restatement of Torts § 757, comment b (1939).

Neither of the above cases involved a trade secret. Both, however, involved an attempt to extend patent-like protection to the design of articles which had been fully disclosed to the public by the sale of a product. Both cases are in accord with existing trade secret law which prevents subject matter within the public domain from being afforded state trade secret protection.[44]

Furthermore, state trade secret laws do not confer a prohibited patent-like form of protection on the owner. Patents convey a broad right to exclude all others from making, using and selling the invention. Trade secret laws afford only a very limited cloak of protection. The owner of a trade secret has no right to exclude all others, but has a cause of action only against a third party who has wrongfully appropriated the secret.

The most recent case upon which the lower court relies for support of its preemption finding is *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969), in which this Court held that a licensee should not be required to pay royalties while challenging the validity of a patent because the enforcement of such contractual provisions would undermine the federal policy favoring the free use of ideas in the public domain. This policy is also in accord with existing trade secret law which categorically denies protection to secrets which have fallen into the public domain.[45]

On the facts of the present case, the trade secrets were not in the public domain. The secrets had been disclosed in confidence to trusted employees who were bound by state law not to disclose these secrets to outsiders nor to use

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[44] *Id.*

[45] *Id.*

these secrets in competition with the rightful owner. These trusted employees left their employer and, as found by the court below, breached their position of confidence; took their employer's trade secrets and used them for their own benefit to the competitive economic detriment of their former employer. The trade secrets had never been dedicated to the public. They had been maintained as secrets and disclosed only on a confidential basis. Therefore, the public had no right to the full and free use of these secrets.

Considering therefore the facts of the present case in light of the prior decisions, it is clear that the decision reached by the lower court is not compelled nor is it supported by the prior decisions of this Court. Hence the enforcement of the state's trade secret laws is compatible with all prior decisions of this Court and the governing state law should have been applied.

CONCLUSION

For the foregoing reasons, *amicus curiae* urges this Court to find that state trade secret laws are not pre-empted by the U. S. Constitution and the federal patent laws enacted thereunder; that state trade secret laws are not in conflict with the policies and objectives underlying the federal patent laws and therefore are not struck down under the Supremacy Clause of the Constitution; and, accordingly, that the decision of the United States Court of Appeals for the Sixth Circuit be reversed.

Respectfully submitted,

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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY,
Petitioner,

v.

BICRON CORPORATION, *et al.*,
Respondents.

BRIEF AMICUS CURIAE FOR THE BUDD COMPANY

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Respondents.

BRIEF AMICUS CURIAE FOR THE BUDD COMPANY

The Budd Company, a Pennsylvania corporation, with an office at 2155 Big Beaver Road, Troy, Michigan 48084, files this brief amicus curiae in support of Petitioner, together with letters of consent from both Petitioner and Respondents.

QUESTIONS PRESENTED

1. Do the Patent Laws of the United States pre-empt subject matter sought to be protected under a state trade secret law?

2. Does failure of an inventor to avail himself of a right under the Patent Laws of the United States destroy his right to protect his invention in other ways including by contracts or trade secrets?

INTEREST OF AMICUS CURIAE

This company has a vital interest in this case because it has its corporate office located in the Sixth Circuit. It engages in activities including export sales, overseas manufacturing and licensing of technology and expertise in 15 foreign countries. It has substantial ownership in five foreign companies, and is licensor to 28 foreign manufacturers, including most of the world's major automotive companies, and has a worldwide network of some 200 distributors.

This company relies heavily on the protection afforded its technological information, including trade secrets, by means of contract. If the opinion of the Sixth Circuit is upheld, the value of technological information conveyed or received as trade secrets by this company, and other companies conducting similar activities would be greatly diminished.

SUMMARY OF ARGUMENT

1. No preemption by the Federal Government should occur with respect to Trade Secrets in the absence of specific Federal Statutes when no preemption has occurred with respect to other forms of Intellectual Property to which both Federal and State Statutes have been directed.

2. An inventor has a right to protect his invention by secrecy if he so chooses. A patent gives him an additional means of protection by granting the right to prevent others from making, using, and selling his invention, but this additional protection is not mandatory. The two rights are entirely distinct. By granting an inventor an additional right, Congress did not intend to deprive an inventor of the right to select the protective means which may be to his best advantage.

ARGUMENT

I.

THE PATENT LAWS OF THE UNITED STATES DO NOT PREEMPT SUBJECT MATTER SOUGHT TO BE PROTECTED UNDER A TRADE SECRET LAW.

A. Three Tests for Preemption

In *Head v. New Mexico Board of Examiners in Optometry*, 374 U.S. 442, 443, 444, Justice Brennan in a concurring opinion applied three settled tests for determining whether federal legislation has displaced state regulation of a given subject matter. Citing *Florida Lime and Avocado Growers, Inc. v. Paul*, 373 U.S. 132, 143, the first test is that the subject matter by its very nature admits only of national supervision. The second test is that there be evidence of congressional intent to occupy the field. The third test is that both State and Federal regulations can be enforced without impairing the federal superintendance of the field.

In applying the first of the aforementioned three tests, it is submitted that the nature of trade secrets is entirely different than patents. Trade secrets have been protectable under state laws for many years and cannot be said to be of such a nature so as to admit only national supervision.

Regarding the second test, in the present case there is no evidence of congressional intent exclusively to occupy the field of trade secrets. In this connection it is unlikely that Congress overlooked the important field of trade secrets in enacting the patent laws.

The third test referred to relates to the fact that both patent and trade secret laws have existed side by side for many years. Because of the rights protectable under the patent and trade secret laws are completely different

there is no conflict therebetween. The federal patent laws do not conflict with state trade secret laws and may be adequately enforced by the Federal Government without interferring with state trade secret laws.

B. Federal and State Governments Are Both in Copyright Field

In *Goldstein v. California*, 93 S.Ct. 2303 (1973), the court was concerned as in the present case with Article 1, Section 8, Clause 8, of the Constitution which provides that the Congress shall have power. . . . "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

The court stated in connection with copyrights and this clause as follows:

> "Since the subject matter to which the copyright clause is addressed may thus be of purely local importance and not worthy of national attention or protection, we cannot discern such an unyielding national interest as to require an inference that state power to grant copyrights has been relinquished to *exclusive* federal control."

It is submitted that an analogy may be drawn between patents and copyrights and that trade secrets are of purely local importance not requiring exclusive federal control.

C. Common Law Rights Of Inventor

Intellectual Property has been defined as, "Those property rights which result from the physical manifestations of original thought."[1]

[1] *Ballentine's Law Dictionary*, Third Edition (The Lawyers Co-Operative Publishing Company, Rochester, New York).

Included as rights to Intellectual Property are patents, Trademarks and Copyrights. Patents, however, is only one of two ways to protect an invention.[2] The common law right of secret property is the other.[3]

It should be noted that while Trademarks and Copyrights have been the subject of both State and Federal Legislation;[4] patents are dealt with under Federal Law, as for example, Title 35 United States Code, and Trade secrets usually by state statutes. See for example, Michigan Compiled Laws Sections 752.771 to 752.773 (1968).

Thus, it becomes apparent that if no preemption has occurred in those areas (Trademarks and Copyrights) of intellectual property rights treated by both Federal and State Statutes, then no preemption should occur where the portion in question (Trade Secrets) of the remaining protected area of Intellectual Property has not been specifically covered by Federal Statute.

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[2]Smith, "*Patent Law, Cases, Comments and Materials*", Page 3.

[3]Id. Page 115.

[4]*Copyrights*
Federal – Title 17 of the United States Code
State – As for example:
California – West's Ann. Cal. Pen Code, §653h.

Trademarks
Federal – Chapter 22, Title 15 of the United States Code.
State – See compilation entitled:
"State Trademark Statutes" by The United States Trademark Association, New York, New York.

II.

INVENTOR HAS A RIGHT TO CHOOSE HOW HE WISHES TO PROTECT HIS INVENTION.

35 U.S.C. 101 states:

> "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

The wording of this statute by utilizing the word "may", and being directed at the inventor rather than a public official, makes the initiation of the patenting procedure a discretionary rather than mandatory act of the inventor. *Mason, et al. v. Fearson,* 50 U.S. (9 How.) 248, 259; 13 L.Ed. 125; *Levers v. Anderson,* 326 U.S. 219, 223; 90 L.Ed. 26.

Nothing in this statute suggests that an inventor if he elects not to seek a patent must give up whatever common-law rights he has in his property (e.g., his invention), and can personally protect. This court has affirmed that such an election can be made. *United States v. Dubilier Condenser Corp.*, 289 U.S. 178.

If an inventor could not afford the payment of the Patent Office fees and thus was unable to obtain a patent a requirement by the courts that the sole remedy to protect an invention lies under the Patent Laws, would impose a hardship and inequity on such an inventor.

CONCLUSION

The decision of the lower Court should be overruled.

Respectfully submitted,

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On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

BRIEF OF CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA AS AMICUS CURIAE IN SUPPORT OF PETITIONER

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---

BRIEF OF CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA AS AMICUS CURIAE IN SUPPORT OF PETITIONER

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Sixth Circuit is reported as *Kewanee Oil Co.* v. *Bicron Corp.*, 478 F.2d 1074 (6th Cir. 1973). By its own order, the opinion of the District Court was not reported. The Sixth Circuit held that the federal patent laws pre-empt the State trade secret law of

Ohio to the extent that Ohio law provides protection to a trade secret which is "an appropriate subject for patent . . . [and] has been used commercially for more than one year.'"[1]

INTEREST OF THE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

The Chamber of Commerce of the United States of America is a national membership association. It includes over thirty-six hundred (3,600) local and State chambers of commerce and trade associations. These State and local chambers, in turn, have an underlying membership of over five million (5,000,000) business firms and individuals in both metropolitan and rural areas. The national Chamber's direct business membership numbers in excess of forty-six thousand (46,000) firms.

Many members of the Chamber rely heavily on the protection of trade secret laws. Unless the *Kewanee* decision is reversed, these members stand to lose their valuable trade secrets, including technical know-how, since almost all of these trade secrets, to the extent they are valuable, have been in use for more than one year. The member firms also stand to suffer severe financial loss and erosion of their competitive strength, not only in the United States, but in world markets. Moreover, trade secrets, developed at great expense, will be rendered legally available to others for nothing. The inevitable resulting transmission of the legally available trade secrets to others will occur by acts that offend traditional views of fair competition and business morality.

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[1] 478 F.2d at 1086.

The Chamber of Commerce of the United States of America, as Amicus Curiae, takes no position with regard to the *private* dispute between the parties to this case. The Chamber's concern is solely with the holding of federal pre-emption of Ohio's laws for protection of trade secrets, and the effect this holding would have on the Chamber's members, particularly if the Sixth Circuit decision is given national application. The Chamber is not seeking to characterize the motives, intentions, or conduct of the parties to this case. Rather, the Chamber seeks to bring to this Court's attention the probable economic and moral consequences of the decision, and the severe detriment to the Chamber's members, and this nation, which would follow from upholding the decision.

Each of the parties has consented, in writing, to the filing of an Amicus Brief on the merits by the Chamber of Commerce of the United States of America. Copies of these written consents accompany this brief as an appendix. The originals have been filed with the Clerk.

SUMMARY OF ARGUMENT

The issue of federal pre-emption of State legislation raises difficult and complex constitutional questions. Historic doctrine, developed by this Court to resolve these questions in a manner best comporting with the requirements imposed by our federal system of government, was misapplied or ignored by the court below.

There is, in fact and law, *no conflict* between the federal patent laws and State laws protecting trade secrets. The two bodies of law are bottomed on different legislative concerns; yet the obligations they impose, and the results they require, are harmonious and complementary.

The decision below strikes at the heart of critical trade secret protection, and portends extreme economic consequences for the United States. The Sixth Circuit's decision reaches a vast area of unpatentable technology, depriving it of any protection.

The scope of the Sixth Circuit's decision is sweeping. Technical developments and refinements which are unpatentable or cannot be practicably patented are deprived, by the court's decision, of legal protection despite the enormous capital investment they represent. The result will inevitably be that investment of capital in development of technical know-how will be diminished.

We are now faced with a critical international trade problem which threatens the effectiveness of the United States as a competitor in world markets. Exportation of technology-intensive products has been the most positive aspect of our trade balance picture. This is, therefore, a time when the nation can ill afford a diminution of investment in technology.

There is a clear relationship between the nation's investment in Research & Development (R&D) and its economic strength. Commitment of risk capital to R&D depends upon the existence of a legal framework protecting a fair chance for the investor to recover his money.

The Sixth Circuit decision, if allowed to stand, will have a severe impact on the willingness of industry to commit capital to R&D efforts. A competitor who has pirated technical know-how without cost will compete from a highly-favored position. Industry cannot be expected to commit large sums to R&D efforts, if those expenditures will not, at least, promise an improve-

ment in the investor's competitive position. The consequences of industry reluctance to invest in developing new products bode ill for the national economy.

Continued investment in R&D will be encouraged, if at all, only by large expenditures for increased measures of secrecy and nondisclosure. Thus, to minimize exposure of many workers to the technology being researched and developed, industry will abandon the team approach to technical problem solving. This will result in loss of efficiency and savings, which otherwise would be injected into the R&D effort.

Rather than sharing developed technology through licensing, companies will retreat to secrecy. This will result in wasteful duplication of efforts to the detriment of the entire economy. Moreover, foreign companies will be unwilling to disclose technical know-how without assurance that the know-how will not simply be appropriated in the United States by competitors.

Industry will not be able to establish confidential arrangements with suppliers, and, therefore, only the large corporations with in-house capabilities will be able to maintain technical know-how in secret.

Small companies will be severely hurt by the Sixth Circuit decision, since only large, well-financed companies will be able to sustain R&D work, absent trade secret protection. Competition will clearly be diminished in the marketplace, if small companies are discouraged from launching research programs.

Congress never intended to pre-empt State legislation in the field of trade secret protection. Federal pre-emption requires a clear expression of congres-

sional intent, and, in the absence thereof, a compellingly clear justification for federal supersession has always been demanded by this Court. In view of the consequences of this ruling, no such compelling justification is possible.

ARGUMENT

I. THE SIXTH CIRCUIT ERRONEOUSLY CONCLUDED THAT CONGRESS INTENDED TO PRE-EMPT STATE TRADE SECRET LAWS BY ENACTING THE PATENT LAWS.

Because the proper ordering of State and national power is critical to the endurance of our federal system, the question of federal pre-emption of State legislative competence presents severe constitutional difficulties. The doctrine developed by this Court to settle conflicts between State and national power has historically recognized that a declaration of the supremacy of one or the other must be reached only after a careful consideration of the requirements imposed by a governmental system of dual sovereigns acting upon the same constituents.[2]

In those instances in which federal legislation emanates from an express constitutional grant of exclusive legislative power to the national government, federal supremacy is clear.[3] Likewise, in those instances in which Congress has legislated pursuant to a constitutional grant of power which is concurrent with the legislative power also enjoyed by the States, the fed-

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[2] See, *e.g.*, Osborn v. The Bank of the United States, 22 U.S. (9 Wheat.) 738 (1824).

[3] See, *e.g.*, McCulloch v. Maryland, 17 U.S. (4 Wheat.) 316 (1819).

eral legislative scheme is held, by virture of the Supremacy Clause,[4] to have superior dignity.[5]

It is, however, in those instances in which a conflict, real or imagined, is seen to exist between State legislation and federal legislation, upon which the Constitution and the Congress are silent as to the supremacy, that maximum difficulties arise. Historically, this Court has determined that a congressional intent to pre-empt State legislative competence will be implied, given certain conditions.[6]

Where State and federal legislation create conflicting duties, impose contrary obligations, or reach inconsistent results, this Court has held that Congress impliedly intended to foreclose State legislation, and that the national legislation must predominate.[7]

It is the argument of this Amicus that, in the absence of an express constitutional delegation to the national government of legislative authority over trade secrets, and in the absence of an express congressional intention to pre-empt State trade secret laws pursuant to a constitutional delegation of concurrent power, Congress should not be held to have impliedly intended to pre-empt State trade secret legislation because: (1) there is no conflict between the patent laws and State regulation of trade secrets; and (2) the results of that implication, detailed in this brief, show that the na-

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[4] U.S. Const., art. VI, cl. 2.

[5] See, *e.g.*, Cooley v. Board of Wardens, 53 U.S. (12 How.) 299 (1851).

[6] See, *e.g.*, Pennsylvania v. Nelson, 350 U.S. 497 (1956); Hines v. Davidowitz, 312 U.S. 52 (1941).

[7] See, *e.g.*, Rice v. Santa Fe Elevator Corp., 331 U.S. 218 (1947).

tional interest in economic well-being and ethical conduct of business relations will be frustrated.

In setting forth details of the economic chaos which will likely result, should the Sixth Circuit's decision in this case be upheld, and in explicating the damage to the ethical conduct of business relationships which will be the probable, though unintended, result of the decision below, this Amicus intends to show that Congress, which must be presumed to act rationally and in the best national interest, could not *impliedly* have intended such results.

The severe economic dislocations that will be wrought if the Sixth Circuit decision is affirmed, in themselves, demonstrate the complementary manner in which both the patent laws and the trade secret laws serve to protect technology and investment. Trade secret laws cannot be *in conflict* with the patent laws, when their effective abolition will result in such economic disruption as to defeat the very purpose of the patent laws.

II. THERE IS NO CONFLICT BETWEEN FEDERAL PATENT LAW AND STATE TRADE SECRET LAW.

A. The Objective of Trade Secret Laws is Not in Conflict with the Objective of the Patent Laws.

This Court has warned against the casual presumption of federal supremacy. For instance, last Term, Mr. Justice POWELL, writing for this Court in *New York State Dept. of Social Services* v. *Dublino*,[8] quoted

[8] 413 U.S. 405, 37 L.Ed. 2d 688 (1973). *Held*, the Work Rules of the N.Y. Social Welfare Law, 52A McKinney's Cons. Laws § 131(4), *not* pre-empted by the Federal Work Incentive Program provisions of the Social Security Act, 42 U.S.C. §§ 602(a) 19, 630, *et seq.*

with approval from *Schwartz* v. *Texas,* 344 U.S. 199, 202-203 (1952):

> "This Court has repeatedly refused to void state statutory programs, absent congressional intent to pre-empt them.
>
> " 'If Congress is authorized to act in a field, it should manifest its intention clearly. It will not be presumed that a federal statute was intended to supersede the exercise of the power of the state unless there is a clear manifestation of intention to do so. *The exercise of federal supremacy is not lightly to be presumed'.*" (Emphasis added.)

Yet, the Sixth Circuit, in this case, *lightly assumed* so insidious a conflict between federal patent legislation and State trade secret laws as to compel the conclusion that the mere enactment of federal legislation in the field of patents *necessarily* pre-empts State legislation in the field of trade secrets. The court's approach not only flies in the face of congressional intent, but also is built on demonstrably incorrect factual and conceptual assumptions.

Amicus wishes this Court to have the factual and conceptual data necessary for a *correct* analysis of the critical issue presented by this case. Consideration of all the relevant information leads inescapably to the conclusion that Congress, by enactng the patent laws, *could not have intended* to pre-empt State power to legislate in the field of trade secrets.

The Sixth Circuit viewed the objective of the patent laws as encouraging disclosure of discoveries in consideration for the reward of an exclusive right to those discoveries for a limited period of time. The

broader, overriding objective of the American patent system, as embodied in the Constitution, is to promote the progress of the useful arts and, ultimately, to promote the industrial and economic progress of the United States.

The court viewed the effect of State trade secret laws as suppression of disclosure, but the *true* effect of these laws is to prevent violation of fiduciary relationships, breach of contractual agreements, and commission of torts. That is the fundamental objective of State trade secret laws. In a very real sense, State trade secret laws work harmoniously with and supplementarily to the patent laws to advance the economic and industrial progress of this nation.

B. The Nature of Patent "Protection" is Fundamentally Different from the Nature of Trade Secret "Protection".

The patent laws arise out of the exercise by Congress of the constitutional grant of power "to promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries . . .".[9] Patent "protection" is in reality the grant of a property right in an invention which satisfies the requirements of patentability imposed by Congress. Patents protect inventions.

Trade secret "protection" is not a recognition of any property right in a trade secret, nor is it truly protection of any trade secret. Trade secret laws affords no protection to technical *information, i.e.,* the secret itself. Competitors may, by fair and independent means, develop and use the same information. Trade

[9] U.S. CONST., art. I, § 8, cl. 8.

secrets, therefore, monopolize nothing. Trade secret laws merely ensure that a competitor's, or a trusted employee's, theft or breach of trust will not cause the trade secret owner to make an unwilling gift of his valuable property.

Trade secret laws protect the trust and confidentiality of business and fiduciary relationships and are grounded only incidentally, if at all, in property. Mr. Justice Holmes, writing for this Court in *E. I. duPont de Nemours Powder Co.* v. *Masland,* 244 U.S. 100 (1917), stressed "the primary fact that the law makes some rudimentary requirements of good faith," and went on to say:

> "The property may be denied, but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs, or one of them. These have given place to hostility, and the first thing to be made sure of is that the defendant shall not fraudulently abuse the trust reposed in him. It is the usual incident of confidential relations." [10]

The court below ignored the separate and distinct rationales of patent legislation, on the one hand, and trade secret laws on the other. However, in dealing with the issue of federal pre-emption, those distinct rationales are of significance. The property right afforded by the patent laws is of national concern—it is a right national in scope. The subject addressed by State trade secret laws is one of purely local importance: construction of contracts and litigation of tort

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[10] 244 U.S. at 102.

claims. Moreover, the maintenance of an atmosphere of orderly and ethical business relationships, arising out of trust and confidence, is a matter uniquely within the State police power to regulate.

III. THE INTENT OF CONGRESS TO PRE-EMPT STATE TRADE SECRET LAWS SHOULD NOT BE IMPLIED WHERE THE RESULT WOULD BE ECONOMIC UPHEAVAL.

A. The Sixth Circuit's Decision Strikes Down the Most Meaningful Area of Trade Secret Protection.

The decision below, while superficially restricted to certain classes of trade secrets, strikes at the very heart of meaningful trade secret protection.

The Sixth Circuit has held that the federal patent laws, through the Supremacy Clause of the Constitution of the United States, pre-empt the State of Ohio's power to protect a trade secret from wrongful appropriation by others, where the trade secret is an appropriate subject for a patent, and has been used commercially for more than one year.

In formulating its opinion, the Sixth Circuit rejected, as "too broad for our consideration in this case",[11] an issue which "requires a determination as to whether the enforcement of any and all state trade secrets laws conflict with the policies of the United States patent laws".[12] The court, however, framed an issue, the affirmance of which forecasts dire economic consequences:

> "Whether a state trade secret law which protects an invention which would be an appropriate sub-

[11] 478 F.2d at 1078.

[12] *Id.*

> ject for a patent under the Patent Laws of the United States, and which has been used commercially for more than one year conflicts with the policies and purposes of Article I, Section 8 (Clause 8) of the Constitution and the Patent Laws adopted pursuant thereto." [13]

The court did not decide that Congress has preempted the totality of the States' ability to regulate by affording protection to some trade secrets. Trade secrets that are not appropriate subjects for patenting under 35 U.S.C. § 101,[14] or those not in commercial use in excess of one year, can, presumably, still be regulated by the States. Prohibited by the decision is State protection of those trade secrets which have withstood the rigors of business analysis and market acceptance, and attained a valuable status within the marketplace: *i.e.*, those that have been in use for more than one year.

The Sixth Circuit holding, "that a state trade secret law which protects an inventor in the maintenance of a monopoly of a device which is an *appropriate subject for a patent* under the United States Patent Laws is in conflict with . . . those patent laws" [15] (emphasis added), requires some analysis. Arguably, the opinion can be construed to forbid only State protection of technology patentable over the prior art, in accord-

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[13] *Id.* at 1078-79.

[14] 35 U.S.C. § 101. "Inventions patentable

> "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

[15] 478 F.2d at 1086.

ance with the concepts of 35 U.S.C. §§ 102 [16] and 103.[17] However, a careful reading of the Sixth Circuit's opinion reveals a broader intent.

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[16] 35 U.S.C. § 102. "Conditions for patentability; novelty and loss of right to patent.

"A person shall be entitled to a patent unless—

"(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

"(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

"(c) he has abandoned the invention, or

"(d) the invention was first patented or caused to be patented by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application filed more than twelve months before the filing of the application in the United States, or

"(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or

"(f) he did not himself invent the subject matter sought to be patented, or

"(g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other."

[17] 35 U.S.C. § 103. "Conditions for patentability; non-obvious subject matter

"A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject

The court stated that its inquiry would "be governed by certain facts which are admitted or obvious from the evidence offered and the concessions of counsel".[18] In this regard, the court specifically noted that "the processes, procedures and manufacturing techniques of Harshaw, as conceded by counsel for Kewanee, were 'patentable,' that is *appropriate subjects for consideration under* the provisions of Title 35 U.S.C. § 101".[19] (Emphasis added.) Immediately after stating the facts upon which its inquiry would "be governed", the court defined the issue presented to be limited to trade secret law which, *inter alia,* "protects an invention which would be an *appropriate subject for a patent* . . . ."[20] (Emphasis added.)

The phrase "*appropriate subject for a patent*", used by the court both in framing the issue and stating its conclusion, originated in the factual concession by counsel for Kewanee, that the trade secrets were "*appropriate subjects* for consideration under the provision of Title 35 U.S.C. § 101"[21] (Emphasis added.) Thus, in the factual background of the case, the Sixth Circuit's opinion must be interpreted to pre-empt State trade secret laws which protect technology falling within the broad categories of subject matter defined in 35 U.S.C. § 101.[22]

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matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made."

[18] 478 F.2d at 1078.

[19] *Id.*

[20] *Id.* at 1078-79.

[21] *Id.* at 1078.

[22] *Supra.* note 14.

B. Protection of Billions of Dollars Worth of Technology Will Be Destroyed by the Sixth Circuit Decision.

The decision below withdraws needed legal protection from an enormous area of valuable technology.[23] While much of that technology may *theoretically* fall within the categories of patentable subject matter, most of it probably will not rise to the high standards of novelty, utility, and nonobviousness, set by this Court, to justify the issuance of a patent grant, and the protection which that grant affords.

As this Court announced in *Graham* v. *John Deere Co.*,[24] "patentability is dependent upon three explicit conditions: novelty and utility as articulated and defined in § 101 and § 102, and nonobviousness . . . as set out in § 103".[25] Thus, § 103 is a "statutory expression of an additional requirement for patentability",[26] over and above that set forth in § 101.

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[23] The existing widespread and economically significant practice of licensing trade secrets and know-how is evidence of the economic value in the marketplace of the trade secrets and know-how. No licensee would willingly contract to pay for information that is of no value. The Sixth Circuit's decision eliminates legal protection for secret technology used to produce commercial products, one year after the first sale of products produced using the technology. Thus, the legally enforceable value of such technology after practice commercially for one year is zero. However, in the real world, the technology at the end of a one-year period of commercial usage is usually more valuable than it was at the start of the one-year period. Drastic interference, such as would be effected by the Sixth Circuit's decision, with the value of technology is likely to produce bad results. See, SAMUELSON, ECONOMICS, 370-76 (8th ed. 1970).

[24] 383 U.S. 1 (1966).

[25] *Id.* at 12.

[26] *Id.* at 15.

All technology classifiable as patentable subject matter under 35 U.S.C. § 101,[27] must also meet the "additional requirements for patentability" as stated in 35 U.S.C. § 103.[28] The Sixth Circuit decision, however, proscribes State trade secret protection of all trade secrets encompassed by § 101, irrespective of the ability of such trade secrets to meet the requirements of § 103.

Critical engineering decisions and judgments are made in the development of new products, and in the implementation of new processes. Many of these judgments are unpatentable, since they are considered matters of choice, capable of attainment by those of ordinary skill in the art.[29] But, while being matters of choice, they frequently require tremendous expenditures of capital to achieve.

For instance, a machine may be comprised of tens of thousands of parts. It cannot be placed in production, however, until each of the individual parts is accurately dimensioned and shaped. In addition, materials must be selected for those parts, and dimensional and spacing tolerances must be developed and tested.

Similiarly, the development of a process requires that many interrelated parameters, such as temperatures, times, and pressures, as well as selection of starting materials, be integrated, harmonized, and optimized. Such efforts are begun on a laboratory bench scale, proceed to a pilot plant stage, and culminate in a com-

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[27] *Supra* note 14.

[28] *Supra* note 17.

[29] *In re* Levin, 178 F.2d 945 (C.C.P.A. 1949); *In re* Mason, 156 F.2d 189 (C.C.P.A. 1946); *In re* White, 39 F.2d 974 (C.C.P.A. 1930).

mercial plant. Extremely large sums of money must frequently be expended to achieve success.[30]

While falling within the definition of theoretically patentable subject matter under § 101, such items as the dimensioning of parts, the selection of materials for these parts, or the ascertainment of processing parameters, are predominantly unpatentable, for they fail to meet the stringent requirements of § 103.[31]

Machine fabrication data and process data are costly to develop, and, if related to marketable products, can be extremely valuable. They constitute a type of technology which the owner must seek to protect from disclosure, since a competitor who obtains access to technology does not incur the investment expenses of the developer, and therefore competes from a favored position.

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[30] The dollar value of trade secrets presently held by the industry of this nation is not known. But the damages awarded in trade secret cases may serve to suggest the enormous magnitude of this value.

Merck & Co., for instance, spent one and one-half million dollars ($1,500,000) developing amprolium, a coccidiostat for destroying poultry parasites. An employee of Merck & Co. copied these trade secrets and conveyed them to another. The same person also engineered the theft of a formula for new additives to improve lubricating oil developed by Rohm & Haas Co. and a formula for an electrical device developed by Sprague Electric Co. In late 1964, judgments were awarded to these three companies, in the sums of $8,600,000 to Sprague, $6,637,499 to Merck, and $6,038,000 to Rohm & Haas. NATIONAL INDUSTRIAL CONFERENCE BOARD, INC., EMPLOYEE PATENT AND SECRECY AGREEMENTS 4-5 (Studies in Personnel Policy, No. 199, 1965).

These judgments are directed to only three innovations: the overall value of trade secrets to the thousands of industrial concerns in this nation is many, many fold that expressed above.

[31] Hotchkiss v. Greenwood, 52 U.S. (11 How.) 248 (1850); Graham v. John Deere Co., 383 U.S. 1, (1966).

In industry, a wide range of technology falls within the category from which the Sixth Circuit has now removed legal protection. For instance, many valuable commercial products are created by blending known components to produce distinctive consumer-desired tastes, textures, and flavors which characterize the product.

Many food products, for example, are manufactured by blending various ingredients, spices, and flavors in specific concentrations and quantities, or by subjecting such food products to process variations in order to obtain nutritional values, taste, texture, and flavor characteristics, desired by consumers. Those blends are carefully guarded as trade secrets.

Similiarly, such blending and processing techniques are common with other consumer goods, such as tobacco and health-care products. All of these consumer products constitute theoretically patentable subject matter under 35 U.S.C. § 101. The Patent Office and the courts, on the other hand, tend to consider such blending and processing trade secrets to be mere matters of choice; and, unless some very unusual and unexpected results are obtained, find them unpatentable under the strictures of § 103.[32] Traditionally, trade secret laws have

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[32] Smith v. Nichols, 88 U.S. (21 Wall.) 112, 118-119 (1874):

"A new idea may be ingrafted upon an old invention, be distinct from the conception which preceded it, and be an improvement. In such case it is patentable. The prior patentee cannot use it without the consent of the improver, and the latter cannot use the original invention without the consent of the former. But a mere carrying forward or new or more extended application of the original thought, a change only in form, proportions or degree, the substitution of equivalents, doing substantially the same thing in the same way by sub-

offered protection to the developers of this type of technology.

Even if technology is patentable, there are areas in which patent protection is inadequate or impractical. For example, in many cases it is impossible for a patent owner to detect when his patented process is being used, since infringers can use the process in the privacy of their own plants and facilities.

Further, even if the use of the technology can be detected, the owner must be prepared to file patent applications in all countries in which the technology may be used, since a United States patent will disclose the process to everyone, but will provide protection *only* in the United States. Obviously, many small companies cannot afford this worldwide patent protection. For them, even the expense of filing United States applications on *all* developed technology is impractical.

C. This Decision Comes at a Time of Mounting Concern for the Economic Well-Being of the United States as An Effective Competitor in World Markets.

The nation's concern in recent years over its economic growth/productivity has continually focused on our declining position in international trade. While our trade deficit has been reduced from $6.3 billion in 1972 to an annual rate of $1.6 billion for the first six

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stantially the same means with better results, is not such invention as will sustain a patent."

American Infra-Red Radiant Co., v. Lambert Industries, Inc., 360 F.2d 977, 987 (8th Cir. 1966):

"We have held in the past and we continue to hold that '[i]nvention will not be decided on the narrow issue of degree,' and that the mere changing of form, proportions, or size will not alone constitute 'invention.' . . . This is true even though the change brought about better results."

months of 1973,[33] it is clear that we can no longer count upon the positive balance of trade position which endured until 1970.

Our competitive stance in world markets has been eroded over the years. The United States share of the world gross national product has declined from 39.3% in 1950 to 30.2% in 1970.[34] At the same time, other countries have made dramatic advances. Japan's share, for example, has grown from 1.5% to 6.2%, roughly a fourfold increase.[35] The European Economic Community's share has grown from 11.1% to 14.8%.[36]

The true picture of our foreign trade problems, however, is not apprehended solely by looking at historical data. Apparent in recent years, and projected for future years, are tremendous trade deficits in minerals, particularly energy fuels. In 1972, we experienced a deficit trade balance for raw and processed minerals of about six (6) billion dollars.[37] The Secretary of the Interior projects a trade deficit for all minerals in 1985 of $40 billion, up roughly $34 billion from the 1972 level.[38] The Secretary also projects a deficit of

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[33] U.S. Dept. of Commerce, *Best Export Performance Since 1951 Cuts Deficit in Merchandise Trade*, III COMMERCE TODAY 8 (August 20, 1973).

[34] PETER G. PETERSON, THE UNITED STATES AND THE CHANGING WORLD ECONOMY, Chart 1 (1971).

[35] *Id.*

[36] *Id.*

[37] NATIONAL COMMISSION ON MATERIALS POLICY, MATERIAL NEEDS AND THE ENVIRONMENT TODAY AND TOMORROW 2-26 (1973).

[38] SECRETARY OF INTERIOR, MINING AND MINERALS POLICY 1973 at 51 (Second Annual Report of the Secretary of Interior under the Mining and Minerals Policy Act of 1970 [1973]).

nearly $100 billion by the year 2000.[39] While these projections themselves are alarming, many consider them conservative, and project much greater deficits in mineral supplies. In any event, the projections present a clear international trade challenge to this nation.

A positive aspect of this otherwise discouraging picture, however, is our increased trade over the twenty (20) year period from 1951 to 1970 in "*technology-intensive*" manufactured products--the fruits of R&D. Our *exports* of such products rose from $6.6 billion in 1951 to $22.6 billion in 1970.[40] By 1970, our *imports* of such technology-intensive products had risen to only $13.0 billion.[41] In 1970, we thus experienced a *favorable* trade balance of about $10 billion in *technology-intensive* products.

By contrast, *exports* of "*nontechnology-intensive*" products rose from $3.7 billion in 1951 to only $6.8 billion in 1970.[42] By 1970, however, our *imports* of *nontechnology-intensive* products had risen to $12.9 billion.[43] In 1970, we thus suffered a trade deficit of about $6 billion in *nontechnology-intensive* products.

It is, therefore, evident that our very healthy trade position in *technology-intensive* products saved us from the dangerous economic effects of our deplorable trade imbalance in *nontechnology-intensive* products.

It appears, however, that in recent years "the United States had been losing its technological leadership in

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[39] *Id.*

[40] PETER G. PETERSON, *supra* note 34 at Chart 21.

[41] *Id.*

[42] *Id.* at Chart 20.

[43] *Id.*

the production and export"[44] of such technology-intensive products. This fact was recognized in the Department of Commerce study of the "Policy Aspects of Foreign Investment by U.S. Multinational Corporations":

> "Within the Department of Commerce, Dr. Michael Boretsky has investigated this area in detail. Through an analysis covering, *inter alia,* United States and foreign trade trends, productivity and R&D expenditures, Boretsky has produced evidence which tends to support the thesis that the United States depends largely upon the export of high technology products for a favorable balance of trade. Boretsky argues that for the past several years the United States has been losing its technological leadership in the production and export of such products, and that if this trend is not reversed, the United States will face a continually worsening balance of payments position. His writings attribute this loss in competitiveness to a number of factors, including: increased intensity of foreign R&D efforts, slower rates of productivity increase by U.S. firms, the ability of foreign countries to make up considerable technological ground by the adoption of 'old technology', exchange rates which put the United States at an unnecessary price disadvantage, and the ability of foreign countries to purchase and assimilate relatively new technologies from innovator countries."[45]

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[44] U. S. DEPARTMENT OF COMMERCE, POLICY ASPECTS OF FOREIGN INVESTMENT BY U. S. MULTINATIONAL CORPORATIONS 31 (1972).

[45] *Id.*

Thus, in an era when we are extremely dependent on our world technological leadership, and this leadership is being challenged, it is clearly counter-productive for the United States to obliterate a critical portion of that legal mechanism which protects and stimulates our technological growth. Although the Commerce Department study recognizes that the erosion of our trade balance has, in part, occurred as a result of the transfer of technology to the developing countries, it is far better that such transfers should occur through controlled contractual arrangements, rather than through breaches of trust and confidence.

The latter route denies to the nation the positive benefit to its international trade position accruing from royalties paid to its citizens for rights to technological advances, developments, and discoveries. These rights include not only those embodied in patents, trademarks, and copyrights, but also those embraced in trade secrets and technical know-how.[46]

The benefit to United States foreign trade through export of these rights has grown from about $840 million in 1960, to about $3.1 billion in 1972.[47] By contrast, the United States spent only about $276 million on imports of such rights in 1972.[48] International export sales and licenses of technology rights by the United States in 1972 thus yielded a startlingly favorable trade balance of $2.8 billion.

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[46] FINNEGAN AND BRUNSVOLD, THE LAW AND BUSINESS OF PATENT AND KNOW-HOW LICENSING D2-3(2d ed. 1972).

[47] U. S. Dept. of Commerce, 53 SURVEY OF CURRENT BUSINESS 28, ll. 7, 10 (June, 1973).

[48] *Id.* ll. 21, 24.

From the foregoing, it is clear beyond peradventure that the vitality of R&D activities in the United States, together with the protective support given to them by our legal system, have sustained our international trade position in world markets through a period in which our trade balance and productivity were decreasing in low technology areas. It is also now common knowledge that competition against the United States is escalating, even in high technology areas.

Put in the simplest and most direct terms, this decision, if affirmed, is an invitation to foreign competitors of United States companies to appropriate valuable trade secret and know-how technology from United States owners without cost, and with impunity.

D. Risk Capital Must Be Available To Support R&D.

Attempts have been made to relate the nation's R&D investment to advancements in gross national product (GNP). The Panel on Invention and Innovation, an Advisory Committee to the Secretary of Commerce, found that the average annual hours of work remained substantially constant during the years 1947-1965 while the GNP was nearly doubled. The Panel stated that, "without presuming to say how much of this increase in GNP was attributable to technological innovation, we are confident that technological innovation played a major role".[49]

Recognizing that GNP statistics often fail to excite the imagination, the Panel looked at three industries that were commercially non-existent in 1945, but which, between 1945 and 1965, contributed significantly to the

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[49] U. S. DEPT. OF COMMERCE, TECHNOLOGICAL INNOVATION: ITS ENVIRONMENT AND MANAGEMENT 3-4 (1967).

nation's growth. Specifically, the Panel investigated the television, jet travel, and digital computer industries. Over that twenty (20) year period, these highly innovative industries contributed $13 billion to our GNP, and an estimated 900,000 jobs to our economy. In substance, the Panel concluded that these innovative industries have very importantly "affected the quality of our lives".[50]

While precise measurements are lacking, it is generally accepted that there is a clear relationship between the economic strength of a nation and its investment in R&D and innovation. In confirmation of this premise, the National Science Foundation has found the contribution of R&D to our economy to be "positive, significant and high":[51]

> "Although what we know about the relationship between R&D and economic growth/productivity is limited, all available evidence indicates that R&D is an important contributor to economic growth and productivity. Research to date seeking to measure this relationship (at the level of the firm, the industry, and the whole economy) points in a single direction—the contribution of R&D to economic growth/productivity is positive, significant and high." [52]

Commitment of capital, as well as time and effort, to R&D and the commercialization of innovative discoveries is an extremely risky and difficult endeavor. While successful commitments can inure to the benefit

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[50] *Id.* at 4.

[51] NATIONAL SCIENCE FOUNDATION, RESEARCH AND DEVELOPMENT AND ECONOMIC GROWTH/PRODUCTIVITY 3 (NSF 72-303, 1971).

[52] *Id.*

of innovators and investors, the prime beneficiary is the consumer, to whom the products of innovation become available through this process.

Also, through continual R&D on existing products, the consumer benefits from increased quality and lower cost. The nation as a whole benefits from R&D, because the ability of United States industry to compete in domestic and world markets is enhanced. A reduction of the incentive to invest risk capital to support R&D would deprive the nation of these attainable benefits.

E. If Affirmed, the Decision of the Sixth Circuit Would Have a Withering Effect on Investment in R&D.

The paramount importance of the Sixth Circuit decision lies in the extraordinarily adverse impact it will have on the economy of this nation, and the undesirable consequences which will follow, if it is affirmed.

Recognizing that other nations are "challenging us both in intellectual and in economic terms",[53] President Nixon, in his March 16, 1972, Message to Congress on Science and Technology, called for ". . . a strong new effort to marshal science and technology in the work of strengthening our economy and improving the quality of our life",[54] but cautioned:

> ". . . we must see that the environment for technological innovation is a favorable one. In some cases, excessive regulation, inadequate incentives and other barriers to innovation have worked to discourage and even to impede the entrepreneurial spirit. We need to do a better job of determining

[53] 8 WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS 581 (1972).

[54] *Id.*

> the extent to which such conditions exist, their underlying causes, and the best ways of dealing with them." [55]

In the environment which existed before the Sixth Circuit decision, there was evidence of a strong and aggressive R&D commitment by this nation. During 1972, industrial R&D expenditures totaled $11.4 billion, and they are expected to increase to $14 billion in 1975.[56]

Expenditures of this magnitude will only be made in reliance upon a legal framework that will protect the investments made, so that industry can, with some certainty, expect to realize a reasonable return. Otherwise, there is little or no incentive to engage in risky and expensive R&D efforts.

The total cost of bringing a new product to market is far greater than the research expense incurred in creating the underlying innovation. The development expense necessary to bring the research to the point of commercial utilization must also be considered.

It is estimated "that what we commonly call research, advanced development or basic invention, accounts, typically, for less than ten percent" [57] of the cost incurred in bringing a new product to the marketplace. While the research relating to a new product may equal only five (5) to ten (10) percent of the total commercialization costs, all research does not

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[55] *Id* at 582.

[56] NATIONAL SCIENCE FOUNDATION, SCIENCE RESOURCES STUDIES HIGHLIGHTS 1-2 (NSF 73-301, February 28, 1973).

[57] U. S. DEPT. OF COMMERCE, *supra* note 49, at 9.

yield commercial products or processes. The investment in unsuccessful research must also be recovered through sales of commercially valuable products.

Research, however, is just one stage. In addition, engineering and design of products account for "ten (10) to twenty (20) percent of total commercialization costs; tooling and manufacturing engineering for forty (40) to sixty (60) percent; manufacturing start-up expenses for five (5) to fifteen (15) percent; and marketing start-up expenses for ten (10) to twenty-five (25) percent.[58]

In its study of twenty (20) major technological innovations, the National Commission of Technology Automation and Economic Progress found that the time period from discovery of a technically feasible concept to the beginning of commercial development averaged nine (9) years.[59] The commercial development period, beginning with commitment of development funds, and ending with the introduction of the commercial product or process to the marketplace, averaged five (5) years,[60] a total development time of some fourteen (14) years.

Of course, the time period for total development of a particular product may vary widely from the average. For instance, Polaroid color pack cameras required fifteen (15) years from initial development to introduction to the marketplace; Minute Rice—

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[58] Id.

[59] National Commission on Technology, Automation, and Economic Progress, 1 TECHNOLOGY AND THE AMERICAN ECONOMY 4 (1966).

[60] *Id.*

eighteen (18) years; Purina Dog Chow—four (4) years; penicillin—fifteen (15) years; Xerography—fifteen (15) years; electric toothbrushes—three (3) to four (4) years; and television—fifty-five (55) years.[61]

The road from invention to marketplace is both hazardous and lengthy. To stimulate travel on this road, the nation must see that it is well-marked and policed, to ensure protection from highwaymen.

The new technology created by R&D must be protected, not only so that the R&D investment can be recovered, but also in order that there be a fair chance for profit commensurate with the risk and time required to bring products of the new technology to the marketplace. One (1) year's commercial use of a trade secret falling within the categories of patentable subject matter is surely an inadequate time during which to secure a reasonable return on its investment.

If an adequate return on investment is to be secured, the developers of a new product must be permitted to compete over a period of years on an equitable basis with others in the marketplace. Fair competition cannot exist where competitors are able to avoid R&D costs by pirating the confidential technology of innovators.

The pirate competitor will either sell his product at a lower price in the marketplace, or maintain the same price, achieving a higher profit. If, shortly after entering the marketplace, the innovator must compete with one who has pirated his expensive technology, the innovator cannot recover his investment, and, in fact, may even be forced out of the market by the unfairly

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[61] L. Alder, *Lag Time and New Product Development*, 31 JOURNAL OF MARKETING, 17-21 (January 1966).

low prices offered by the pirate. The incentive to invest in R&D would be destroyed.

The time, effort, and cost required to make a new product commercially successful can be staggering. To justify this investment there must be a reasonable return to the investors. If there is no such return, there will be no incentive to invest in the development of new products. To protect return on investment, and, thereby, the incentive to support R&D, there must exist a legal method to reserve and secure valuable innovations springing from R&D efforts to those who paid for the R&D.

F. The Effectiveness of R&D Efforts Will Be Severely Impaired.

Many large companies in competitive, high technology fields, which possess their own risk capital, will probably not substantially reduce their commitments to R&D as a result of the Sixth Circuit decision. But the impracticality or impossibility of patenting *all* developments will cause these companies to institute new procedures to reduce risk of loss of their valuable trade secrets. The unfortunate consequences are that such procedures: will be expensive; will divert funds from needed R&D efforts; and will render such efforts less efficient in yielding new and valuable technology. It may, therefore, reasonably be expected that the favorable cost-benefit ratio of R&D endeavors will be severely, and *unfavorably,* altered.

1. Industry will compartmentalize R&D efforts in direct derogation of the advantages of the team approach.

A company faced with reliance on self-protective measures to defeat industrial espionage may be forced to compartmentalize its R&D staff. Then, no one

individual will have access to all the trade secrets, or all the know-how, in relation to a particular product or process. This economically inefficient, restrictive measure would thus ensure that no single employee would be in a position to defect to a competitor with sufficient information to permit the competitor to duplicate the product or process—too many pieces would be missing to allow completion of the jig-saw puzzle.

Compartmentalization of R&D is in direct conflict with a trend noted in February, 1972 by the National Science Foundation—"laboratory consolidation is now being pursued by many organizations".[62] NSF found that, "some firms decided that substantial savings could be realized by centralizing the entire research effort".[63] Normally, centralization results in substantial savings, in that "separate laboratories require more research management personnel, duplicate specialists at several locations, more expensive, but less adequate, library facilities, etc. . . . ."[64]

Centralization promotes research productivity because of "greater interaction" between research personnel. It is mainly upon this premise that the team effort concept of R&D is based. Normally, greater benefits from research can be achieved in less time by having a team of specialists attack a problem as a whole and pursue it to a solution, than can be achieved by having various specialists individually attack the different aspects of a multi-faceted problem.

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[62] NATIONAL SCIENCE FOUNDATION, SCIENCE RESOURCES STUDIES HIGHLIGHTS, *supra* note 56, at 4.

[63] *Id.*

[64] *Id.*

Moreover, such compartmentalization of R&D work can, at best, only succeed in limiting the ultimate risk of disclosure. If there were no legal restraints, a group of employees could leave an employer and set up a competing enterprise based on the employer's trade secrets. In even more disloyal fashion, a group of employees could conspire to sell trade secrets to their employer's competitors.

2. Wasteful duplication of R&D effort will be encouraged by the demise of know-how licensing

If trade secrets cannot be licensed or otherwise protected, they will be hoarded and jealously guarded. Such hoarding will result in a sharp reduction in the exchange of technology, with a concomitant duplication of effort to develop the same technology.

High risks would accompany transfer of technology by contract, for, even if the transferee acted in good faith under the contract, the transferor could not always rely on the security measures of the transferee to protect the technology from disclosure. Frequently, the ability of the transferee to protect the technology will be proportional to the transferee's size. Accordingly, small companies may encounter severe obstacles in acquiring needed technology.

Further, companies, both large and small, will be reluctant to share their technology with others for fear that the value of the licensed technology will be lost through inadequate precautions maintained by their licensees. In the past, it has been customary to permit a licensee to make periodic payments in amounts which are calculated on the extent of use of the technology, so that licensee's payments are based on what the technology is worth as it is used. Now, before a

company could agree to license another company to use its technology, it would have to receive full payment in advance as "front-money", since the licensee, after receiving the technology, could refuse to make periodic payments based on use, on the ground that the trade secrets are unprotectible.

Manifestly, this circumstance would foreclose small companies from licensing technology, since they could not afford the large, lump-sum payments which would be required in advance.

Industrial progress would be drastically retarded, were each company forced to *independently* develop its own process technology. Access to technology developed by others through licensing avoids duplication of R&D efforts by others, and permits rapid entry of a new competitor into markets inadequately served. Moreover, licensing of technology promotes cross-fertilization of research effort through interchange of complementary, partially developed ideas.

3. Supplier relations will be disrupted.

This decision makes it impossible for industry to rely upon confidential disclosures to suppliers of: (a) raw materials and equipment, or (b) services, such as engineering and construction. Confidential data must be made available to suppliers to enable them to perform their service or supply function. The result of the Sixth Circuit decision would be to force industry to establish in-house capabilities to do those things previously done by outside contractors bound by the requirements of secrecy.

Another effect of disrupting supplier relationships would be seriously to decrease the efficiency with which

such materials and equipment are supplied, or such services performed.

By way of illustration, if new processing equipment is to be built and installed today, a company usually looks to outside suppliers who specialize in making that equipment. The company must disclose to the equipment supplier the particulars of its process, and solicit design and construction of equipment to meet those particulars. The supplier, however, is charged, under threat of prosecution for violation of State trade secret laws, with maintaining those particulars in secrecy.

Without trade secret protection, the supplier could freely convey those particulars to a competitor. The contracting company is then forced, against economic logic, to go into the equipment construction business with itself as its sole customer.

This self-supply capability will not be available to the small businessman. He will have no recourse but to expose his trade secrets to potential appropriation by others.

4. The flow of technology to this country would be crippled.

A foreign company enjoying an adequate legal system to protect its trade secrets abroad will be extremely reluctant to send technology to the United States, if we offer no comparable protection for its trade secrets here. The alternative to licensing technology into the United States would require a foreign company to keep its technology abroad, and seek profit by exporting products to the United States to compete with domestic industry.

Further, a foreign company would know that it could not collect royalties for trade secrets which it licenses into the United States. A foreign company could protect itself under such circumstances only by requiring payment of all royalties within the one year period of use permitted in the United States under the Sixth Circuit decision. In many cases, where trade secrets are of great value, and have traditionally been paid for on a use basis, prepayment would be impractical. The sums of money required in the form of "front-money" payments would be staggering. At the least, this type of payment requirement would foreclose small, and perhaps even medium size, companies from purchasing foreign technology.

Finally, it is noted that many great jumps in technology occur, not from a single advance in the art, but from a chain of small advances, culminating in a major breakthrough. Were the exchange of technology to be limited, domestic industry would lose access to technological advances, made both here and abroad, which might form part of the chain from which major breakthroughs result. The adverse impact of this exclusion upon the competitiveness of U. S. industry in world markets would be profound and enduring.

G. The Sixth Circuit's Eradication of the Critical Area of Trade Secret Protection Would Require Greater Governmental Interference in Industrial Activities.

Affirmance of the Sixth Circuit decision eliminating the legal mechanism now used to protect vast areas of technology from unauthorized disclosure, would force upon the United States Government a new burden to ensure that technology affecting national security does not pass into the hands of unauthorized foreign nations. In assuming this new burden, the Government

would be required greatly to increase its monitoring of industrial activities, so that it could identify and impose disclosure restrictions upon information which is sensitive from a national security standpoint.

The United States Government already has export controls which operate to minimize transmittal of sensitive information to selected Communist Bloc countries.[65] However, these controls do not prevent publication of sensitive information in technical journals, freely available to scientists in foreign countries. In the past, publication of sensitive information has not been a pervasive problem, since industry has treated this information as trade secrets, and those having access to it have been restrained from publishing it by the trade secret laws.

Withdrawal of trade secret protection would remove restraints on publication from those having access to sensitive information. Many people, intending only to share their new developments with the scientific community, would in fact be making sensitive information available to foreign countries having interests adverse to the United States.

The United States has, for example, much valuable and sensitive technology in jet fuels, high-temperature alloys, electronic equipment, and the like, which today is not published, or otherwise made available to foreign interests, because the companies developing this technology preserve the information as trade secrets.

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[65] Export Administration Act, 50 U.S.C. § 2401 (1969). The Act sets forth congressional finding (2) as:

> "(2) The unrestricted export of materials, information, and technology without regard to whether they make a significant contribution to the military potential of any other nation or nations may adversely affect the national security of the United States."

If the Government can no longer rely on industrial assertions of trade secret protection to discourage disclosure, the only alternative which the Government would have to prevent the transmittal of sensitive information to unfriendly foreign nations would be to embark upon an extensive program to identify and classify sensitive information as it is being developed by industry. Obviously, this would require extensive governmental review of, and intervention in, the R&D activities of industry.

IV. STRIPPING THE STATES OF THE POWER TO PROTECT TRADE SECRETS WILL FRUSTRATE THE OBJECTIVES OF THE PATENT SYSTEM.

Because the Sixth Circuit viewed the effect of State trade secret laws as suppression of disclosure, it must necessarily have assumed that stripping the States of the power to legislate in the area of trade secrets would enhance the disclosure of valuable technology presently being withheld from the public, thereby contributing to the promotion of new and competitive industry. This assumption is incorrect.

A. State Trade Secret Laws Do Not Suppress Disclosure of Valuable Technology to the Detriment of the Public.

Valuable technology is not now being concealed as trade secrets, to the detriment of the public. The multitude of technical refinements which account for a commercially feasible consumer product, manufacturing process, or equipment design, are the basis for the risk capital investor's competitive position in the market. The public has the benefit of the ultimate goods produced, and the jobs created by their production.

Competitors in the same market are free to pursue, in a legal fashion, the identical technical refinements on their own, or to attempt to purchase the know-how from the original developer. By sound trade secret legislation, these competitors are deprived only of the opportunity to violate a trust, or steal without pretense of trust, the technical refinements which constitute trade secrets. They are deprived only of the power to appropriate the fruits of the capital, time, and physical efforts of another, without the payment of fair consideration.

Trade secret law permits industry to pursue better means to enrich the American people with new products, or with old products made more economically. This law also assures that such a pursuit will be conducted within that framework of honored trust and freedom from wrongful intrusion by others, which supports our overall socio-economic system.

Stripping the States of the power to create such a legal framework augurs more than just moral chaos for industry. Rather than enhancing disclosure of technology to the economic benefit of the country, the consequences of the decision below, if allowed to stand, will be, in some cases, *increased* measures of *secrecy,* and, in *all* cases, either a diminution of R&D investment or a reduction in efficiency.

B. Free and Public Disclosure of Technical Know-How Now Possessed as Trade Secrets Cannot Reasonably be Expected.

The ability of any industrial organization to recover its R&D expenditures depends directly upon its ability to secure a competitive commercial position. It cannot fairly be expected that a company would freely reveal

the technical know-how by which its competitive position is bolstered. Indeed, such disclosure would be irresponsible, and in denegration of the obligations to its investors. The effect of disclosure would be to afford competitors the know-how without cost, and ultimately to force the original developer either to lose the R&D investment or to withdraw from the market—a plainly unacceptable consequence.

C. Withdrawal of Legal Protection for Technology Will Decrease Competition in Our Marketplaces.

Today, enhanced competition in our marketplaces occurs primarily through the entry of new companies. Typically, such new entrants are small and ill-financed. Many fail, but some survive and grow to become major competitive factors in old industries, or even to found new industries.

Small companies, however, are least able to weather the storm that would ensue if legal protection were to be withdrawn from valuable trade secrets. These companies cannot afford to take the same measures to protect technology as their larger counterparts.

The inability of the smaller companies to protect their trade secrets will seriously affect their ability to raise venture capital for investment in new products and processes. Investors having such funds available would surely divert their money to more secure enterprises and investments.

In a recent study, conducted for the National Science Foundation by A. D. Little, Inc., entitled *Barriers to Innovation in Industry,* it was found that, while only a few large companies considered lack of funds to be a major barrier to innovation, virtually all small com-

panies considered financing a significant barrier to research.[66] The additional risks incurred by the inability adequately to protect technical data would surely intensify this problem for the small companies.

If we move toward a society in which we will perpetuate and accelerate the growth of large corporations, while continually increasing barriers to growth and development of new, small companies, the end result will be increased industrial concentration, with resultant increased regulation by government. This will clearly act to the detriment of the consumer.

It should be our goal to provide an atmosphere in which small companies can compete with large established companies. In this way, the smaller companies can gain a foothold in the marketplace, and grow to provide increased competition in either the same or substitute products. This will not be achieved if heavier financial burdens are placed on small companies.

D. Voiding State Trade Secret Laws Will Have a Real and Adverse Effect upon the Economic Welfare of the United States.

Because disclosure is not practicable, and, since the fundamentally dissimilar patent laws do not provide a viable means of protecting technical know-how, now held as trade secrets, industry is really faced with only two alternatives.

One alternative is dire indeed. A significant proportion of industry will simply not be able to assume the risk of capital and time investment in R&D.

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[66] ARTHUR D. LITTLE, INC./INDUSTRIAL RESEARCH INSTITUTE, INC., BARRIERS TO INNOVATION IN INDUSTRY, OPPORTUNITIES FOR PUBLIC POLICY CHANGES 22 (1973).

The other alternative for the remaining proportion willing to take the risk is to increase secrecy measures, and minimize business relationships now founded on confidentiality of disclosure of technical information. No matter how attempted, minimization of disclosure will detract from available R&D investment capital, and will, accordingly, have a drastic impact on technological development, and, in turn, on the industrial and economic welfare of the United States.

Both of these alternatives will produce the precisely opposite effect of that assumed by the court below. Rather than enhancing the broad objective of the patent system to promote the nation's economic welfare and growth, the elimination of trade secret laws will injure the economy, and, thereby, frustrate the goals of the patent system.

V. THE DECISION BELOW IS NOT FOUNDED ON SOUND LEGAL REASONING OR PRECEDENT.

The ruling below is erroneous in that it has misapplied the doctrine and holdings of this Court on federal preemption of State legislative competence.

Although often admitting that federal pre-emption is a most perplexing question,[67] this Court has maintained a wise accommodation between the needs of central control and the vitality of local institutions.[68] Thus, where Congress has not clearly expressed an intent to pre-empt a legislative area, this Court has

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[67] See, Union Brokerage Co. v. Jensen, 322 U.S. 202 (1944); South Carolina State Highway Dept. v. Barnwell Bros., 303 U.S. 177 (1938); Kelly v. Washington, 302 U.S. 1 (1937); Townsend v. Yeomans, 301 U.S. 441 (1937).

[68] See, Davies Warehouse Co. v. Bowles, 321 U.S. 144 (1944); City of Yonkers v. United States, 320 U.S. 685 (1944).

always insisted that the justification for federal supersession be compellingly clear.[69]

While exclusive federal authority in the field of patents is now resolved,[70] federal authority over trade secrets is certainly not, and the States have traditionally legislated extensively in the area. Where the States have exercised exclusive competence in the past, or where federal and State legislative competence has been concurrent, this Court has always assumed that the historic police powers of the States were not to be superseded, absent a clear and manifest purpose of the Congress to do so.[71] Thus, giving due regard to a proper adjustment of State and federal power in our constitutional system,[72] unless Congress has definitely expressed or clearly implied an intent exclusively to occupy the area, and displace State police power,[73] the State legislative scheme is valid.[74]

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[69] See, Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942); Jennings v. United States Fidelity & Guaranty Co., 294 U.S. 216 (1935); Florida v. United States, 282 U.S. 194 (1931); Minnesota Rate Cases, 230 U.S. 352 (1913).

[70] Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964).

[71] Schwartz v. Texas, 344 U.S. 199 (1952); H. P. Welch Co. v. New Hampshire, 306 U.S. 79 (1939). See also, Rice v. Santa Fe Elevator Corp., 331 U.S. 218 (1947); Allen-Bradley Local v. Wisconsin E. Rel. Bd., 315 U.S. 740 (1942); Napier v. Atlantic Coast Line R. Co., 272 U.S. 605 (1926); Savage v. Jones, 225 U.S. 501 (1912); Reid v. Colorado, 187 U.S. 137 (1902).

[72] FTC v. Bunte Bros., Inc., 312 U.S. 349 (1941).

[73] Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942). See also, Bethlehem Steel Co. v. New York State L.R.B. 330 U.S. 767 (1947); H. P. Welch Co. v. New Hampshire, 306 U.S. 79 (1939).

[74] See, Algoma Plywood & Veneer Co. v. Wisconsin E. Rel. Bd., 336 U.S. 301 (1949); Eichholz v. P.S.C. of Missouri, 306 U.S. 268 (1939); *rehearing denied*, 306 U.S. 669 (1939).

Nothing in this case indicates that Congress, in enacting the patent laws, left no room for the States to supplement protection of intellectual property.[75] Indeed, the chaotic industrial atmosphere, which would ensue on elimination of that "field of protection" afforded by State trade secret laws, directly addressed by the Sixth Circuit, clearly demonstrates that Congress has not and did not intend to replace State trade secret law with the federal patent laws. The two bodies of law are not co-extensive.

Indeed, the legal groundings of patent and trade secret protection are quite dissimilar. The patent laws protect an inventor's reward for creativity, and primarily vest a property right, while trade secret laws are grounded, if at all, only incidentally in property.[76]

For the same reason, we cannot conclude that the federal interest in patent protection is so dominant that State legislation regarding trade secrets is assumed to be precluded.[77] Trade secret protection antedates modern patent legislation, and we must presume that Congress would have articulated federal dominance, had it wished to do so. Further, the obligations imposed by the federal patent laws do not reveal an intent to preclude State trade secret protection.[78] The

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[75] See generally, Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942); Pennsylvania R. Co. v. P.S.C. of Pennsylvania, 250 U.S. 655 (1919).

[76] See, *supra*, at p. 8.

[77] Cf. Hines v. Davidowitz, 312 U.S. 52 (1941).

[78] See, New York C.R. Co. v. Winfield, 244 U.S. 147 (1917); Charleston & W.C.R. Co. v. Varnville Furniture Co., 237 U.S. 597 (1915); Southern R. Co. v. Railroad Commission of Indiana, 236 U.S. 439 (1915).

patent laws grant a limited exclusive right in order to promote the progress of the useful arts, while trade secret laws protect the obligation of contract, or deter the commission of torts.

Finally, it cannot be said that State legislation in this area produces a result inconsistent with the federal legislative scheme.[79] The patent laws work their historic twofold purpose of rewarding creativity and disclosing invention for the public benefit. The result of trade secret protection is perfectly consistent and complementary: research is stimulated, and its fruits inure to the public benefit in the form of new and improved products and services.

Last Term, in *Goldstein* v. *California*, 412 U.S. 546 (1973), this Court refused to find that State criminal protection against "tape piracy" was pre-empted by the federal Copyright Laws, prior to the extension by Congress of federal copyright protection to sound recordings. The Court argued that nothing in the copyright power suggests that the federal interest is exclusive, and that some copyright subject matter may be of purely local importance.

The same considerations apply here. If the federal interest in protection of intellectual property were exclusive, surely the Constitution or the Congress would have so stated long before now. Moreover, the subject addressed by State trade secret laws is one of purely local importance: construction of contracts and litigation of tort claims.

This Court has repeatedly warned against casual or facile assumptions of federal supersession of State

[79] See, Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942); Hill v. Florida, 325 U.S. 538 (1945).

legislation. For example, in *Reid* v. *Colorado,* 187 U.S. 137 (1902), this Court said:

> "It should never be held that Congress intends to supersede or by its legislation suspend the exercise of the police powers of the States, even when it may do so, unless its purpose to effect that result is clearly manifested."[80]

In the instant case, it is most difficult to imagine a congressional intent to supersede State trade secret laws. Indeed, Congress has recognized the validity of protecting trade secrets in many federal statutes. Thus, for example, the patent laws themselves bar a contempt citation of a witness who refuses to disclose trade secrets, 35 U.S.C. § 24, and provide for the preservation of patent applications in secrecy, 35 U.S.C. § 122; 18 U.S.C. § 1905 forbids officers and employees of the United States from disclosing trade or know-how secrets; 5 U.S.C. § 522(b) (4) (Public Information Act) exempts from required disclosure by the government "trade secrets and commercial or financial information obtained from a person . . . ."; 15 U.S.C. § 46 (f) gives the Commissioner of the F.T.C. power to publish information received by the Commission, *except trade secrets;* and 15 U.S.C. §§ 78x(a) and 79v deny the Securities and Exchange Commission authority to require disclosure of trade secrets in applications and reports.

The recently enacted environmental legislation carefully exempts from public disclosure technology "entitled to protection as trade secrets", Clean Air Act, 42 U.S.C. § 1857(c); Federal Water Pollution Control Amendments of 1972, 33 U.S.C. § 1322(g)(3). Moreover, Rule 26 of the Federal Rules of Civil Procedure

[80] 187 U.S. at 148.

grants protection against disclosure of trade secrets, and confidential R&D information.

In the face of this express congressional approval of protectibility of trade and know-how secrets, it must be concluded that Congress intended the federal patent laws and State trade secret laws to share the task of protection of intellectual property, and the court below has wrongly concluded otherwise.[81]

CONCLUSION

Amicus Curiae, Chamber of Commerce of the United States of America, respectfully urges this Court to reverse the judgment of the court below, to the extent that judgment relies upon a finding of pre-emption by the federal patent laws of the trade secret laws of the State of Ohio.

Respectfully submitted,

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[81] Cf. Prudential Insurance Co. v. Benjamin, 328 U.S. 408 (1946).

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November 1, 1973

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Dear Mr. Troxell:

Kewanee Oil Company v. Bicron Corporation et al

Confirming our telephone conversation of today, the Chamber of Commerce of the United States requests your consent for the Chamber to file a brief Amicus Curiae in the Supreme Court of the United States on the merits of the case.

If you will consent to the filing of a brief Amicus Curiae, I would appreciate your signing the consent statement appearing at the bottom of the letter.

Please return the signed copy of this letter to me for filing in the Supreme Court of the United States with the brief on behalf of the Chamber of Commerce of the United States. This brief will be filed within the time allowed for the filing of the brief of Kewanee Oil Company.

Very truly yours,

Douglas B. Henderson

Douglas B. Henderson

DBH/nkr

CONSENT

Kewanee Oil Company, Plaintiff-Petitioner, hereby consents to the filing of the Amicus brief on the merits by the Chamber of Commerce of the United States.

Edward P. Troxell

Counsel for Petitioner

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October 24, 1973

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Dear Mr. McCoy:

Kewanee Oil Company v. Bicron
Corporation et al

Confirming our telephone conversation of today, the Chamber of Commerce of the United States requests your consent for the Chamber to file a brief Amicus Curiae in the Supreme Court of the United States on the merits of the case.

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Very truly yours,

Douglas B. Henderson

Douglas B. Henderson

DBH/nkr

CONSENT

Bicron Corporation et al, Defendants-Respondents, hereby consent to the filing of the Amicus brief on the merits by the Chamber of Commerce of the United States.

Counsel for Respondents

Certificate Of Service

The undersigned hereby certifies that copies of the foregoing were, on this 21st day of November, 1973, mailed by regular airmail to counsel for Petitioner and Respondents as follows: Mr. Edward P. Troxell, Jones, Day, Cockley and Reavis, 1750 Union Commerce Building, Cleveland, Ohio 44115; Mr. William C. McCoy, Jr., Boxworth, Sessions & McCoy, 625 National City Bank Building, Cleveland, Ohio 44114.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY, *Petitioner,*

AGAINST

BICRON CORPORATION, *et al., Respondent.*

BRIEF OF THE ELECTRONIC INDUSTRIES ASSOCIATION AS AMICUS CURIAE IN SUPPORT OF PETITIONER

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BRIEF OF THE ELECTRONIC INDUSTRIES ASSOCIATION AS AMICUS CURIAE IN SUPPORT OF PETITIONER

I. AUTHORITY TO FILE

This brief is filed on behalf of the Electronic Industries Association as *amicus curiae* pursuant to Rule 42 (2) of this Court and is accompanied by the written consent of both parties, the originals of which are filed herewith.

II. INTEREST OF AMICUS CURIAE

The Electronic Industries Association represents 230 companies engaged in the development, manufacture and sale of electronic equipment. The membership and the industry encompass both small and large companies.

In order to compete in the commercial market, these companies have, by investing substantial research and development funds, established technical competence in many specific areas. Their innovative solutions to many difficult technical problems, for which they have attained a worldwide reputation, involve technical know-how and processes, most of which constitute trade secrets, which are often on the forefront of world knowledge in their respective technical areas.

The decision below eliminates trade secret protection for patentable trade secrets that have been in commercial use for more than one year. The Electronic Industries Association therefore has an important interest in this case because all trade secrets within the industry must be protected if its companies are to maintain their competitive position. These trade secrets and know-how represent the industrial basis on which many highly technological companies within the industry are structured. Furthermore, these trade secrets and know-how provide the challenge and incentives for others to enter this competitive area through innovation.

III. PURPOSE OF BRIEF

The narrow question of law before this Court is whether the Constitution and the federal patent laws pre-empt and make ineffective State laws which protect against disclosure or use of trade secrets in breach

of duties imposed by contract or a confidential relationship. The legal arguments for reversing the decision of the Sixth Circuit have been ably advanced by the petitioner and are not reiterated here. *Amicus curiae* adopts and supports the petitioner's legal arguments, but it has no interest in and expresses no view on the facts of record or the rights of the parties.

The purpose of this brief is to set forth the serious and far reaching ramifications of this case upon the industry represented by *amicus curiae*. In particular, beyond the narrow legal question is the equally important and broader question whether the preemption of State trade secret laws will (1) lead to a counterproductive atmosphere of distrust in the employer-employee relationship, and (2) encourage a broad policy where employees can convert to their own use with impunity valuable property rights, thereby forcing employers to a position of investing less in research and development for fear of loss of such rights.

IV. EFFECTS OF AFFIRMATION

A. Affirmation of the Sixth Circuit Will Benefit Employees Who Misappropriate Employer Trade Secrets and Fundamentally Destroy Employer-Employee Trust in General.

The Sixth Circuit acknowledged that, under Ohio law, the employees wrongfully misappropriated the trade secrets of their employer. Nonetheless, the court in effect held that, as to patentable items which have been in commercial use for over one year, the patent laws must pre-empt State law prohibiting such misappropriation. To the extent it is less costly and time consuming to acquire secrets from employers than from independent research, the decision discourages independent research and development and encourages

misappropriation, which heretofore has been within the general prohibition of the law.

A further practical effect of the lower court's decision would be to immunize employees who misappropriate trade secrets which are *not* patentable. As to secrets in commercial use over one year, it would be a *condition precedent* to an employer's legal action for breach of contract or tortious misappropriation that the trade secret not be patentable. Absent a stipulation of lack of patentability, which is unlikely because such a stipulation would be against the interest of the employer-inventor, the determination of patentability is properly made, in the first instance, *only* by the Patent Office; the additional expense and delay of filing a patent application for the determination of patentability would greatly reduce the effectiveness and desirability of legal action against an employee's misappropriation of trade secrets.

In an environment which encourages misuse of patentable trade secrets and does not discourage misuse of unpatentable trade secrets, employees have little incentive to innovate on behalf of their employer or to share their discoveries with their employer and much incentive to embark on their own after acquiring valuable information. The trust and loyalty which are so vital between an employer and his employee and which are encouraged by existing legal principles will be seriously eroded by such incentives.

Present trade secret law appropriately balances the need to discourage incentives to employer disloyalty with the need to provide employees with the necessary freedom to utilize their talents and knowledge on their own behalf or in the employ of another. See, for ex-

ample, Note, *Computer Programs and Proposed Revisions of the Patent and Copyright Laws,* 81 Harv. L. Rev. 1541, 1555 (1968). Affirmation of the lower court will destroy this balance.

B. Rewards and Incentives for Diligent, Fruitful Industrial Research Will Be Eroded by Affirmation of the Sixth Circuit's Decision.

Given the lack of employee incentive to share discoveries with employers and the incentive to misappropriate employers' patentable trade secrets, employers will be reluctant to engage in research because very little research can be done without the assistance of knowledgeable employees who are capable, if ill-motivated, of misappropriating the employers' research. In addition, the impracticality of legal action for misappropriation destroys the incentive to take the risk of investing in research and development as to trade secrets which are not patentable.

If important and valuable research can be misappropriated with impunity merely because it has been in commercial use for more than one year, the employer is faced with the difficult choice of applying for a patent on *every* invention, even if it is probably not patentable, or risking the total loss of the "headstart" which is an important incentive for large research and development expenditures. See, Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy,* 80 Harv. L. Rev. 1432, 1462 (1967). However, in this particular industry, aside from the expense and delay of acquiring a patent that any industry faces, patents are not sought on all patentable items because the difficulty of policing a patent in this industry makes it impractical from a business

standpoint to patent any but the more significant trade secrets. Moreover, due to the innovation and quick turnover of this industry, the primary advantage over competitors consists of the headstart; thus, research would be discouraged if the mere fact of failure to seek a patent constitutes an invitation to employees to misappropriate and thereby destroy the headstart.

Present trade secret law balances the need to protect new developments in order to provide incentives to develop, against the need to assure broad competition and foster new entry by enthusiastic and enterprising researchers. Moreover, present trade secret law appropriately permits an inventor to choose either a patent, which excludes the whole world for a finite period of time, or a trade secret, which excludes only those whose misappropriation would be a breach of contract or a tort, for a theoretically unlimited time but with risks of leaks and independent discovery by others. Affirmation of the Sixth Circuit's decision would both destroy the balance and eliminate the choice.

C. Affirmation of the Sixth Circuit's Decision Will Impose Severe Additional Burdens Upon the Patent System.

As stated above, an employer who fears risks will be forced to apply for a patent on *every* trade secret, not only those which are potentially patentable, but those which are probably not patentable, for the following reasons. First, employees can, with impunity, misappropriate anything which is patentable after one year of commercial use; therefore, it is necessary to know whether a trade secret is patentable in order to determine whether to obtain trade secret agreements. Second, legal action for misappropriation may not be brought until patentability is determined. Absent a

stipulation of patentability, this determination can only be made, in the first instance, by the Patent Office, and *must* be made for *every* trade secret, despite the improbability of patentability. This tremendous increase in the number of patent applications will severely and unnecessarily impose additional burdens upon the Patent Office and cause even greater delays in the award of patents. As stated by Judge Friendly in his opinion in *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216 at 224:

> "There can be no public interest in stimulating developers of such know-how to flood an overburdened Patent Office with applications [on] what they do not consider patentable."

Moreover, particularly in a legal action for misappropriation, it would be to the benefit of an employer-inventor to have an unpatentable trade secret, while the employee who misappropriates would benefit if the trade secret were patentable. Therefore, the employer-inventor would be ironically arguing against the patentability of his own invention (while the misappropriator would be contending that the trade secret deserves a patent), and the additional deluge of patent applications would include many in which the applicant intentionally presents the case in such a manner as to assure unpatentability. This will be particularly true because, in a situation which is limited to trade secrets that have been in commercial use over one year, the patent application can provide no benefit except, if the application is denied, to facilitate legal action for misappropriation.

A further burden on the Patent Office is the need to establish a new class of decision which does not now

exist, i.e., "Patentable but Ineligible Due to Violation of the One-Year Limit." Under existing law, commercial use for over one year destroys patentability. The decision of the Sixth Circuit will additionally burden the Patent Office with a new class of application which is presently rejected on its face, and require the Patent Office to decide whether the trade secret *would have* been patentable, but for the one year limit, despite the fact that the time and energy of the Patent Office will have thereby been expended upon a trade secret which can never be awarded the benefit of patent protection.

D. Affirmation of the Sixth Circuit's Decision Will Discourage Research Within the United States.

The members of the Electronic Industries Association are presently conducting operations in several foreign countries, including Canada, most European countries, and Japan, where trade secret agreements between employers and employees protect patentable trade secrets although they have been in commercial use over one year. In order to avoid the unattractive choice between the risk of developing trade secrets without obtaining a patent, or enduring the expense and delay of obtaining a patent on every trade secret, many researchers will prefer these foreign countries and others which similarly protect trade secrets. See *Attorney General's National Committee Antitrust Reports,* 86-88 (1955).

V. CONCLUSION

Affirmation of the decision of the Sixth Circuit will have seriously detrimental ramifications upon the need of the electronics industry to protect its trade secrets. It will benefit employees who misappropriate employer

trade secrets and fundamentally destroy employer-employee trust in general; rewards and incentives for diligent, fruitful industrial research will be eroded; severe additional burdens will be imposed upon the patent system; and research within the United States will be discouraged.

For the reasons stated above, *amicus curiae* respectfully submits that the judgment of the Court below be reversed.

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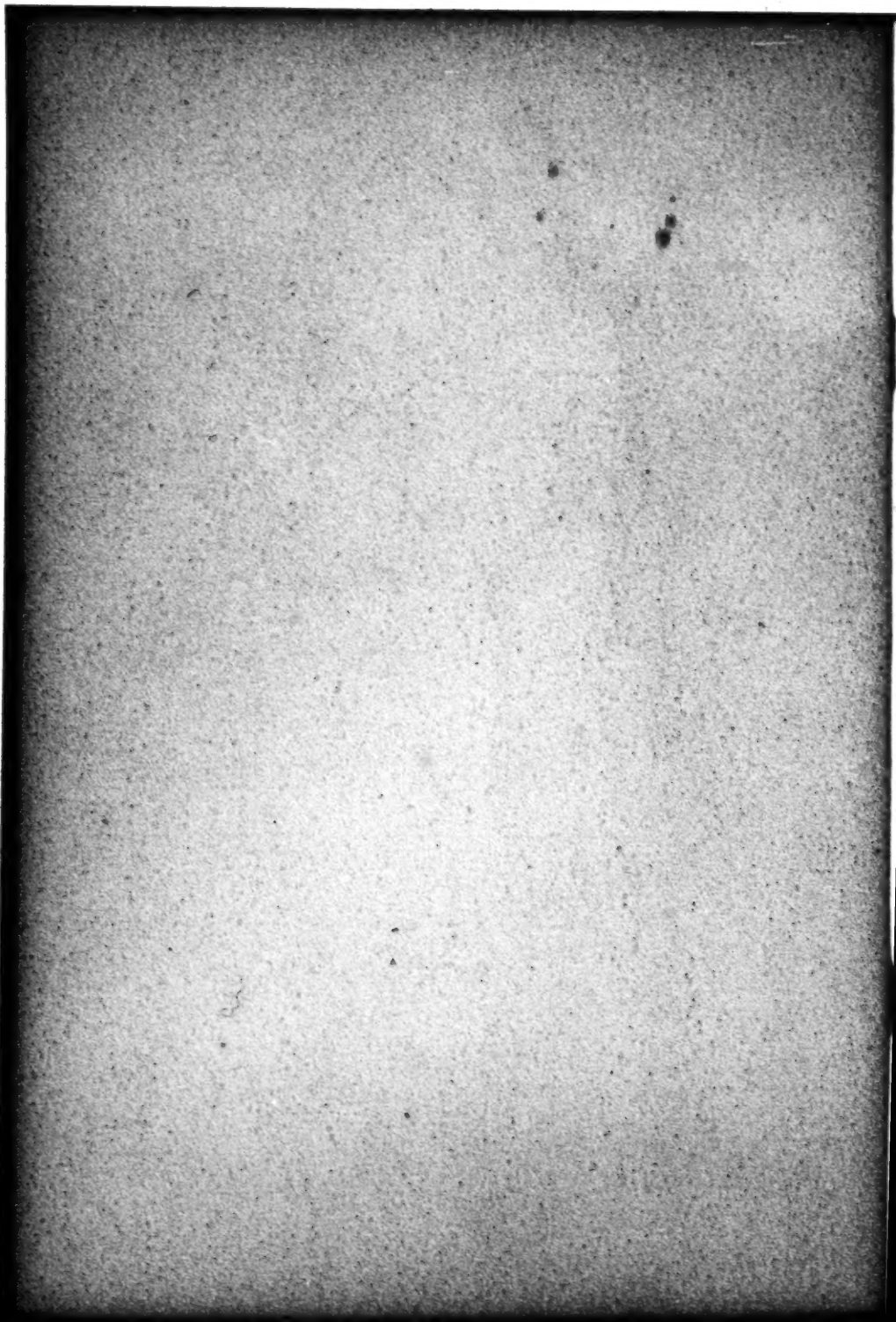

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IN THE

Supreme Court of the United States

October Term, 1973

No. 73-187

KEWANEE OIL COMPANY,

Petitioner,

against

BICRON CORPORATION, *et al.*,

Respondent.

BRIEF FOR THE NEW YORK PATENT LAW ASSOCIATION AS *AMICUS CURIAE*

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IN THE

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October Term, 1973

No. 73-187

KEWANEE OIL COMPANY,

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against

BICRON CORPORATION, *et al.*,

Respondent.

BRIEF FOR THE NEW YORK PATENT LAW ASSOCIATION AS *AMICUS CURIAE*

I. Authority to File

This brief is being filed on behalf of the New York Patent Law Association, as *amicus curiae,* under Supreme Court Rule 42(2), with the written consent of the parties. Copies of the consent letters are attached.

II. Purpose of Brief

The purpose of this brief is not to take sides on the questions of whether petitioner's trade secrets exist or have been maintained or appropriated, but to urge this Court to reject the ruling in this case by the Court of Appeals for the Sixth Circuit that the trade secret laws of Ohio are in such conflict with the Patent Laws of the United States as to be preempted by the Patent Laws under the

Supremacy Clause of the United States Constitution. *Kewanee Oil Co.* v. *Bicron Corp.*, 478 F.2d 1074, 178 U.S.P.Q. 3 (6 Cir. 1973).

III. Interest of the New York Patent Law Association

The New York Patent Law Association was established to maintain standards for those specializing in the law of intellectual property, and particularly patents, trademarks, copyrights, confidential disclosure agreements and trade secrets. We presently have approximately 1200 lawyer members, who have active practices in this field and, as such, have day-to-day contact with the operation and impact of the patent and trade secret laws, and the relationship of these laws to each other.

The decision of the court below, which acknowledged that it is in conflict with prior decisions of four other Courts of Appeals[1], has cast a cloud of uncertainty[2] over what heretofore has been considered a well established area of law, predicated upon the principle that a trade secret may be protected by State law—even though it is an appropriate subject for a patent and even though it has been used commercially, but secretly, for an extended period of time.

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[1] *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216 (2 Cir. 1971); *Servo Corp. of America* v. *General Electric Co.*, 337 F.2d 716 (4 Cir. 1964), *cert. denied* 383 U.S. 934 (1966), *rehearing denied*, 384 U.S. 914 (1966); *Water Services, Inc.* v. *Tesco Chemicals, Inc.*, 410 F.2d 163 (5 Cir. 1969); *Dekar Industries, Inc. et al* v. *Bissett-Berman Corp.*, 434 F.2d 1304 (9 Cir. 1970), *cert. denied* 402 U.S. 945 (1971).

[2] Consider, for example, the problem of harmonizing the Court of Appeals decision in this case with the decision rendered by a different panel of the same court, just three weeks after its decision in this case, affirming a criminal conviction and imprisonment based upon the theft of a trade secret. *United States* v. *Greenwald*, 479 F.2d 320 (6 Cir. 1973), *cert. denied* U.S. (1973).

Our concern with this decision rests not only upon our interest in the proper development of the patent and trade secret laws, but also upon its serious and far reaching impact, both nationally and internationally. Vast sums have been spent, by both individuals and corporations, in the research and development of confidential technological resources worth billions of dollars, which are being used in the production of myriad products of great benefit to the public. The stripping away of trade secret protection for these resources would, in our view, lead to massive and irreversible damage to essential technological underpinnings of the nation's economy.

IV. Court of Appeals Disposition

After ruling that the findings of fact of the District Court are not clearly erroneous, within the meaning of Federal Rule 52, and thus sustaining the District Court's findings that 20 of the 40 trade secrets claimed by Kewanee were indeed trade secrets and had been appropriated by the individual and corporate defendants, the Court of Appeals stated that:

> . . . in addition to the issues already discussed there is a very serious and important issue of a claimed conflict with the provisions of the Constitution of the United States relating to patents, Article I, Section 8 (Clause 8) . . . and the Patent Laws adopted pursuant thereto, Title 35 U.S.C. § 101 et seq., and whether that conflict requires the application of the provisions of the Supremacy Clause of the Constitution, Article VI, (Clause 2) . . . 478 F.2d at 1078.

In its resolution of this issue, the Court held that the trade secret laws of Ohio, at least as applied to the trade secrets involved in this suit, have, in view of the Supremacy Clause, been preempted by the Patent Laws adopted by Congress pursuant to Constitutional authorization.

In reaching this conclusion, the Court stressed what it considered to be two important characteristics of the trade secrets under consideration, first that they involve processes, procedures and manufacturing techniques which constitute "patentable" subject matter, in the sense that they are appropriate subjects for patenting within Section 101 of the Patent Act, and second that these trade secrets had been in commercial (albeit secret) use for more than one year prior to the law suit. 478 F.2d at 1078.

The Court reasoned that since the trade secrets constituted patentable subject matter, and since they had been in commercial (albeit secret) use for more than one year, the inventor had "forfeited his right to a patent" in this subject matter, and the substantial equivalent of patent protection could not, in effect, be recaptured by invoking the Ohio trade secret laws. 478 F.2d at 1086.

Thus, a key premise of the Court's decision is that the rights protected under the Ohio trade secret laws are the substantial equivalent of patent rights, and the Court thus referred to these rights as protecting an inventor in "the maintenance of a monopoly" and according him the right "to exclude competition". 478 F.2d at 1086. It is upon this premise that the Court concluded that federal preemption of the Ohio trade secret laws exists.

V. Question Presented

In view of the foregoing disposition of this case by the Court of Appeals, the central question presented to this Court is the issue succinctly stated by the Court of Appeals as the issue it faced, namely:

> . . . Whether a state trade secret law which protects an invention which would be an appropriate subject for a patent under the Patent Laws of the United States, and which has been used commercially for more than one year conflicts with the policies and

purposes of Article I, Section 8 (Clause 8) of the Constitution and the Patent Laws adopted pursuant thereto. 478 F.2d at 1078-9.

VI. Summary of Argument

A. This case cannot be viewed in the abstract since it involves an area of law which has existed as a means for protecting confidential technology, used for the benefit of both the trade secret owners and the public, for over a century—and since the abolition of this law would have untold consequences.

This area of the law began in the United States at least as early as 1868 in *Peabody* v. *Norton* 29 Mass. 452 (1868), where the question of federal preemption by the Patent Laws was argued and rejected, and it continued through many decisions of this Court over the years. Also, through many new Patent Acts and amendments—none of which questioned or disturbed either this Court's decisions or the long-established and well-known reliance on trade secrets in industry. The consequences of a change in this law, without Congressional hearings and supportive legislation to fill the voids, would be dire not only to American industry, but also to the public, who are the ultimate beneficiaries of the technology involved.

B. The trade secrets laws of Ohio are not in conflict with Article I, Section 8, Clause 8 of the Constitution.

This Court's recent decision in *Goldstein* v. *California* 412 U.S. 546 (1973), involving the copyright aspects of Clause 8, is dispositive of this point.

C. The trade secret laws of Ohio are not in conflict with the Patent Laws or, as a consequence, void under the Supremacy clause.

This section discusses the nature of the patent grant; the vast differences between patents and trade secrets; the

objectives of the Patent Laws and how trade secret protection is compatible with these objectives. Also, it discusses the fact that the Patent Law objectives of a prompt and full disclosure, and ultimate dedication to the public, are requirements incident to the grant of a patent. Thus, if a patent is secured in violation of one of these requirements, the objective is indeed frustrated, but Congress has left to each inventor the choice as to whether he will keep his invention secret or disclose and dedicate it in exchange for patent protection.

Further, this section discusses the fact that Congress has not in its enactment of the Patent Laws so occupied the field of exclusive rights in discoveries of a "patentable" nature as to preempt State trade secret protection for such discoveries (listing many federal statutes which recognize trade secrets). Lastly, it concludes that trade secret protection for "patentable" subject matter is not in conflict with, or preempted by, the Patent Laws.

D. The Court of Appeals erred in its application of the rulings of earlier cases to the circumstances of the present case.

The Court of Appeals appears to have misinterpreted the early Supreme Court cases of *Grant* v. *Raymond,* 31 U.S. 218 (1832) and *Kendall* v. *Windsor,* 62 U.S. (21 How) 322 (1858). Also, the Court improperly extended the Patent Law preemption cases of this Court beyond the pale of their concern with State laws granting protection "identical to" or "the equivalent of" patents, to the area of trade secret protection, which is clearly not identical to or the equivalent of patent protection. Further, it erred in applying the one-year commercial use rule to trade secrets.

VII. Argument

A. This case cannot be viewed in the abstract since it involves an area of law which has existed as a means for protecting confidential technology, used for the benefit of both the trade secret owners and the public, for over a century—and since the abolition of this law would have untold consequences.

In its opinion in this case, the Court of Appeals discussed the development of the law of trade secrets both in England and the United States, and in so doing, referred to the landmark trade secret case of *Peabody* v. *Norfolk*, 29 Mass. 452 (1868) as being one of the earliest trade secret cases in this country. While the Court then stated that it could find no case in which there has been a "definitive discussion of the possibility of conflict between the Patent Laws of the United States and the trade secret laws of the several states", 478 F.2d at 1081, this should not be understood to mean that this question has never been raised or considered. On the contrary, the *Peabody* case faced this question and sanctioned the coexistence of patents and trade secrets in 1868, and this coexistence has been accepted for over a century.

In this connection, the defendant in the *Peabody* case argued that:

> . . . the protection of such a secret, is against the policy of the patent laws. The allegations of the bill indicate machinery and process which are patentable. Having made a patentable invention, if Peabody chooses to try to keep it forever secret, and attempt to exclude the public forever from its use, the court, in the language of *Williams.* v. *Williams,* will not "struggle" to protect such a secret, 29 Mass. at 456-7.

In response to this defense, and the others raised on behalf of the defendant, the Supreme Judicial Court of Massachusetts stated that:

> It is the policy of the law, for the advantage of the public, to encourage and protect invention and commercial enterprise. . . . If he makes a new and useful invention of any machine or composition of matter, he may, upon filing in a public office a description which will enable an expert to understand and manufacture it, and thus affording to all persons the means of ultimately availing themselves of it, obtain letters patent from the government securing to him its exclusive use and profit for a term of years. If he invents or discovers, and keeps secret, a process of manufacture, whether a proper subject for a patent or not, he has not indeed an exclusive right to it as against the public, or against those who in good faith acquire knowledge of it; but he has a property in it, which a court of chancery will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons. 29 Mass. at 457-8.

The *Peabody* case thus observed the differences between trade secrets and patents, and gave clear recognition to the availability of trade secret protection as one alternative, in addition to patent protection, "to encourage and protect invention and commercial enterprise". *Ibid.* Significantly, that decision was rendered in a State where an Act had been passed as early as 1641 prohibiting the grant of monopolies except for a short time for profitable inventions. 478 F. 2d at 1081.

Moreover, the protection of trade secret rights has been repeatedly recognized by this Court, where there has been a breach of contract or trust, even though the *Peabody* concept of "property" rights in trade secrets has been

questioned. Thus, in *Board of Trade* v. *Christie Grain & Stock Co.*, 198 U.S. 236, 250-1 (1905), this Court held that:

> . . . the plaintiff's collection of quotations . . . stands like a trade secret . . . The plaintiff does not lose its rights by communicating the results to persons, even if many, in confidential relations to itself, under a contract not to make it public, and strangers to the trust will be restrained from getting at the knowledge by inducing a breach of trust and using knowledge obtained by such a breach.

Thereafter, in *DuPont Powder Co.* v. *Masland,* 244 U.S. 100, 102 (1917), which involved secret processes for the manufacture of artificial leather, presumably "patentable" subject matter, Mr. Justice Holmes stated that:

> The word property as applied to trade-marks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith . . . Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs, or one of them.

Further, in *Becher* v. *Contoure Laboratories,* 279 U.S. 388, 391 (1929), which involved "patentable" subject matter in the form of a machine, Mr. Justice Holmes, again speaking for a unanimous Court, stated:

> It is plain that the suit had for its cause of action the breach of a contract or wrongful disregard of confidential relations, both matters independent of the patent law, and that the subject matter of [the inventor's] claim was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust.

Also, in *United States* v. *Dubilier Condenser Corp.,* 289 U.S. 178, 186-7 (1933), after outlining the power ac-

corded Congress under Clause 8, Section 8, of Article I of the Constitution, the Court recognized the availability of trade secrets and patents as alternative forms of protection for the same subject matter, stating:

> An inventor . . . may keep his invention secret and reap its fruits indefinitely. In consideration of its disclosure and the consequent benefit to the community, the patent is granted. An exclusive enjoyment is guaranteed him for seventeen years, but upon the expiration of that period, the knowledge of the invention enures to the people, who are thus enabled without restriction to practice it and profit by its use.

Thus, this Court has sanctioned trade secret rights in subject matter which falls within the purview of the patent laws, as an alternative to patent protection—the latter being open to inventors who choose to disclose their inventions in exchange for the right to exclude all others for a fixed term set by Congress.

Since the decision of the *Peabody* case, and in keeping with the forgoing decisions of this Court and others, lawyers have advised their clients as to these alternatives —recognizing the need to closely guard trade secrets if this alternative is chosen, and the risk of losing the trade secret if at any time it is innocently discovered or reverse-engineered or independently developed.

This advice, along with a general awareness of the established law of trade secrets, has led many corporations and individual inventors to disclose important trade secrets to employees and others, under appropriate agreements and other safeguards, with a confidence that the secrets would not thereby be compromised.

Further, it has also led to full-scale efforts, at considerable expense, to develop and market complete know-how packages for various technologies, sufficient to enable interested licensees to enter new fields with minimum delay

and development expense, the packages including many manufacturing details, tolerances, etc. that would never reach the conceptual level generally required for patent protection, although falling within the "patentable" subject matter scope.

In addition, it has led to a reliance upon trade secrets, rather than the patents, in many other instances, sometimes because of the high costs and delay involved in securing patents. For example, there is substantial reliance upon trade secret protection for computer programs and other computer software, in perhaps the most significant technological field of modern times—only a limited aspect of which has been held by this Court to constitute "unpatentable" subject matter. See *Gottschalk* v. *Benson,* 409 U.S. 63 (1972). New developments in programs are essential to the growth of the computer field, and it is well known that the cost of these developments is enormous. To date these costs have been borne by companies large and small. See *Software Protection by Trade Secret, Contract, Patent* (1969) by Patent Resources Group, Washington, D.C.; David Bender, *Post-Adkins Trade Secret Protection of Software,* 1970 Rutgers Journal of Computers and the Law (Spring 1970) 5.

In all of these areas and others, if the trade secret laws fall, how can those who have relied upon them be made whole? And, without trade secret protection, will the effort continue to be spent, or will the results of such efforts be lost?

Further, the trade secret laws have given rise to considerable trade secret licensing of foreign companies, often in countries where the inventor has secured no patent protection. Indeed, in many instances, especially in low technology countries, foreign companies consider patent licenses without trade secret know-how to be of little value. In

Painton & Co. v. *Bourns Inc., supra,* 442 F. 2d at 226, the Court alluded to the benefits foreign companies would derive from an abolition of our trade secret laws, calling attention to an estimate in an *amicus* brief that this could result in the loss of as much as $1 billion in annual income to American companies, a sum which would have a significant effect on the balance of trade for this country. It is not clear how this fruitful exchange can continue if the trade secret laws fall.

In some industries, trade secrets also play an essential role in competitive bidding against foreign companies for the construction of extensive chemical processing plants outside of the United States. In these situations, the contractor is often selected on the basis of the superiority of his trade secret processes, in comparison with those of his competitors. A demise of the trade secret laws of this country would put American companies at a great disadvantage in competing for such foreign business.

Moreover, other considerations must also be faced, including the paralyzing effect the demise of trade secret protection will have on one's willingness to disclose unpatented ideas to others in confidence, when the confidence can be violated with impunity; the extent to which even a surreptitious appropriation of one's trade secrets can be redressed, when it concerns legally unprotectible rights; and many other matters.

In all of these areas, a failure of the trade secret laws would have a tremendous adverse impact on American industry and the public, totally inconsistent with the fact that trade secrets, until now, have been consistently sanctioned by the courts—and apparently also by Congress, through its adoption over the years of numerous patent statutes and amendments,[3] none of which have questioned

[3] See the Patents Acts of 1790, 1793, 1836, 1870 and 1952 (1 Stat. 109, 318; 5 Stat. 117; 16 Stat. 198; 35 U.S.C.) and over 60 amendatory enactments.

or rejected the trade secret rulings of this Court, or the well-known industry reliance upon trade secrets.

In view of these considerations and others, the abolition of the law of trade secrets should not be undertaken in the absence of the clearest possible indication from Congress that such a result was intended [4]—and, indeed, not without Congressional hearings for all of those affected, and subsequent positive Congressional action in the form of legislation [5] designed to fill the voids created by the loss of the trade secret laws.

B. The trade secret laws of Ohio are not in conflict with Article I, Section 8, Clause 8 of the Constitution.

For convenient reference, we set forth Article I, Section 8, Clause 8 of the Constitution, as follows:

> The Congress shall have Power . . .
>
> To promote the Progress of Science and useful Arts by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;

The most recent of this Court's decisions dealing with this clause was *Goldstein* v. *California,* 412 U.S. 546 (1973), decided subsequent to the Court of Appeals decision in the present case. In the *Goldstein* case, the Court upheld a California statute outlawing tape piracy, or the unauthorized duplication of popular tape recordings, over attacks based upon assertions of both Constitutional and Congres-

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[4] See, e.g., *Parker* v. *Brown,* 317 U.S. 341 (1943); *Schwartz* v. *Texas,* 344 U.S. 199 (1952).

[5] In this regard, it is noteworthy that this question is presently before Congress in the so-called Administration bill for a new Patent Act, which has been agreed upon by all of the affected governmental agencies and which proposes, in Section 301, a positive pronouncement by Congress that "This title shall not be construed to preempt rights or obligations arising by operation of the State law concerning trade secrets." Patent Modernization and Reform bill S. 2504 (1973).

sional preemption—the recordings in question being unprotected by federal copyrights.

On the question of Constitutional preemption by the foregoing Clause 8, which the Court of Appeals projected as an issue in the present case but did not actually treat, this Court's decision in *Goldstein* found no express provision in the Constitution that the powers granted Congress under this clause are exclusive, or that State action in this area is prohibited. *Goldstein* v. *California, supra,* 412 U.S. at 555-558.

This holding necessarily applies to both "authors" and "inventors" alike, as they share the same Constitutional clause, and therefore, consistent with this Court's holding in *Goldstein* as to "authors", there is no express provision in the Constitution which accords Congress the exclusive power, or precludes State action, to reward "inventors" with "exclusive rights" in their discoveries.

Further, in the *Goldstein* decision this Court ruled that State action in granting copyright protection, in matters of purely local interest, would not *necessarily* conflict with the presence of copyright granting authority in the federal Government—so that there is not such a total contradiction and repugnance in the concurrent exercise of State and Federal copyright powers as to warrant an inference that all State powers in this regard have been relinquished to exclusive federal control. *Goldstein* v. *California, supra,* 412 U.S. at 559. This holding should also be deemed applicable to "inventors" as well as "authors," and hence to patents as well as copyrights, especially since the Court in *Goldstein* relied upon the prevalence of State issued patents in the 18th century in support of its finding of legitimate State interests in granting exclusive rights in writings of a purely local interest. One must conclude, therefore, that the grant of exclusive rights in discoveries by the States is similarly not inherently in conflict with like authority in the federal Govern-

ment, so as to make concurrent state and federal authority to grant such exclusive rights so totally repugnant as to be precluded by Clause 8.

The question of the unlimited time duration of the California tape piracy statute was also raised in *Goldstein*, as being an area of conflict with Clause 8, since this Clause speaks of "limited times". The Court pointed out, however, that the limited time duration provision of Clause 8 applies only to Congressional, and not State, action. And, further, the dangers in a federal exclusive grant of unlimited duration are far greater than those of a State, in view of the pervasive nature of such a federal grant. Thus, no conflict with Clause 8 was found to exist on this basis. The same is true as to trade secrets, especially in view of the very circumscribed nature of any right to exclude others which may be created by the trade secret laws, as well as the susceptibility of trade secrets to termination at any time they become publicly known, as will be discussed.

Therefore, the protection of trade secrets by the States, even if viewed as a form of exclusive rights in the discoveries of inventors, is not in conflict with Article I, Section 8, Clause 8, of the Constitution.

C. The trade secret laws of Ohio are not in conflict with the Patent Laws or, as a consequence, void under the Supremacy Clause.

As indicated in the Court of Appeals decision, the Supremacy Clause of Article VI of the Constitution provides that "This Constitution, and the Laws of the United States which shall be made in pursuance thereof . . . shall be the Supreme Law of the Land. . ."

The current Patent Act, called the 1952 Patent Code, was adopted by Congress pursuant to Article I, Section 8, Clause 8, of the Constitution and, consequently, if State trade secret laws "interfere with, or are contrary to" this

Act, they must fall. See *Gibbons* v. *Ogden*, 9 Wheat 1, 211 (1824).

The recent *Goldstein* case also treated the question of federal Supremacy, in the context of copyrights. After pointing out that there is no simple formula for making this determination, since the considerations vary from field to field, the Court quoted the following rule from *Hines* v. *Davidowitz*, 312 U.S. 52, 67 (1941):

> Our principal function is to determine whether, under the circumstances of the particular case, [the state] law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.

This rule was also discussed in *Perez* v. *Campbell*, 402 U.S. 637, 649 (1971), where the Court observed that since the *Hines* decision in 1941 this statement of the rule has frequently been reiterated.

As indicated by the Court in the *Goldstein* decision, patent Clause 8 describes both the objective Congress must seek and the means to achieve it. *Ibid* 412 U.S. at 555. We turn first to the "means" to achieve the stated objective of promoting science and the useful arts, since an understanding of the nature and function of patents and trade secrets will make a discussion of their objectives more meaningful.

The means, as expressed in Clause 8, is that of securing to inventors the "exclusive right to their . . . discoveries" for limited times. This means has been implemented by Congress in its enactment of the current Patent Act, which provides for the granting of patents that convey "the right to exclude others from making, using or selling the invention throughout the United States" for the term of seventeen years. 35 U.S.C. 154; and see *United Shoe Machinery Co.* v. *United States*, 258 U.S. 451, 463 (1922); *Crown Co.* v. *Nye Tool Works*, 261 U.S. 24, 34-5 (1923).

This "right to exclude" in the patent grant is enforceable against the public generally, without regard to whether the accused product has been copied from the patentee or independently developed. Further, it pertains to subject matter known to the public. Thus, although a patent owner may sell his products in the open market, they may not be copied, except by a licensee, because of his "right to exclude" all others.

Trade secret rights are wholly different. No right to exclude the general public exists in the law of trade secrets. *Peabody* v. *Norfolk, supra.* Anyone who independently conceives a trade secret can practice it with impunity, and anyone who obtains access to it through legitimate means and not under a pledge of secrecy, can duplicate it at will. Further, all are free to attempt to learn the secret, by any legitimate analysis or inspection, or reverse-engineering, or any other legitimate means—and once the secret is learned it may be practiced free of any obligation.

If one cannot practice a trade secret of his competitor, it is because he cannot discern what it is by legitimate means and duplicate it—and not because of any legal "right to exclude" inherent in the trade secret itself. Its strength, therefore, lies in the fact that it is secret, and once it becomes publicly known it is lost. *DuPont* v. *United States,* 288 F.2d 904, 129 USPQ 473 (Ct. Claims 1961). Thus, if a trade secret owner places his products on the open market, or the trade secrets otherwise legitimately come to public attention, he has no "right to exclude" others from copying them.

A trade secret is thus said to bind no one except one who has learned of it in confidence—with the exception that, as in other things of value, it cannot be pilfered without liability, *Painton & Company* v. *Bourns Inc., supra,* 442 F.2d at 223; and see, Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy,*

80 Harv. L. Rev. 1432 (1967). Similarly, its only "right to exclude" is in relation to one who has received it in confidence AND violated that confidence. And, even in such a case, the exclusionary relief available is generally limited to an injunction for the "head-start" period of time the violator gained by his access to the trade secret—and this may be denied if the value of this head-start can be assessed and money damages are deemed adequate. See, *e.g.*, *Data General Corp.* v. *Digital Computer Controls, Inc.*, 297 A.2d 437, 175 U.S.P.Q. 486 (Del. Sup. Ct., 1972).

In short, contrary to the main premise of the Court below, trade secret rights do not provide their owners with an ability to "exclude competition" which is in any way comparable to that found in patent grants. 478 F.2d at 1086.

Turning to the objectives of the Patent Laws, the ultimate objective is, of course, to promote the progress of science and the useful arts, as recited in Clause 8.

The operation of the trade secret laws is consistent with this objective. Commercial rewards that can be derived from trade secrets promote the development of technological innovation and its use in the trade, thus promoting science and the useful arts while benefiting the public. Further, a competitor's announcement of a new or less expensive product, which has been manufactured by a secret process he has created, provides a real incentive for one to match or better its performance. Indeed, when a product embodying a trade secret is marketed, progress in science and the useful arts is promoted in some measure because the product can be freely copied and utilized in new applications, or improved to create new products.

This is not to say that trade secrets act to promote science and the useful arts in exactly the same way that patents do, or that quantitatively they do so to a greater or lesser extent than patents do, but experience certainly

indicates that they have the effect of promoting science and the useful arts.

An objective of the Patent Laws has also been said to be "to secure to the public the advantages to be derived from the discoveries of individuals." *Grant* v. *Raymond*, 31 U.S. 218 (1832). Here again, the trade secret laws are consistent with this objective, since the discoveries protected by them are ones being used for the public. Indeed, some authorities have asserted that technological secrets are not cognizable by the Courts as trade secrets until they have been used in the trade, and their fruits thus brought to the public. Louis Orenbush, *Trade Secrets and The Patent Laws*, Journal of the Patent Office Society, Oct. 1970, Vol. 52, No. 10, p. 638, 666.

Further, an objective of the Patent Laws has been said to be that of encouraging capital investment in new discoveries, *Picard* v. *United Aircraft Corp.*, 128 F.2d 632 (2 Cir. 1942), and again trade secret protection is not contrary—although the relative effectiveness of patents and trade secrets in this area is difficult to measure.

Other important objectives are to induce full disclosure of new inventions, and to effect their dedication to the public after a fixed time, *in return* for the patent grant. *Pennock* v. *Dialogue*, 27 U.S. (2 Peters) 1 (1929); *Grant* v. *Raymond*, *supra*; *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249, 255 (1945).

It is in this regard that trade secrets have sometimes been said to fall short, as failing to comport with either of these objectives. This, however, is not the case.

Considering the disclosure objective first, it must be recognized that while the intention of the Patent Laws is to encourage disclosure by the offer of a patent grant, Congress has expressed no intention, through its adoption of the Patent Laws or otherwise, to *compel* disclosure. Rather, as noted earlier, the choice has been left to the inventor.

Thus, this Court made it clear in *United States* v. *Dubilier Condenser Corp., supra,* 289 U.S. at 186, that "An inventor . . . may keep his invention secret and reap its fruits indefinitely". And see Mr. Justice Black's opinion in *Lear, Inc.* v. *Adkins,* 395 U.S. 653, 677 (1969) to the same effect.

If one were to secure a patent on the basis of less than a full disclosure of his invention, he would surely be thwarting this Congressional objective. See 35 U.S.C. 112; *Grant* v. *Raymond, supra.* However, if he merely chooses to maintain his invention secret, without the benefit of patent protection, he is but selecting an alternative Congress left open to him. In the words of Judge Leonard Hand in *Metallizing Engineering Co.* v. *Kenyon Bearing & Auto Parts Co.,* 153 F.2d 516, 520 (2 Cir. 1946) "he must content himself with either secrecy, or legal monopoly". And see *Peabody* v. *Norfolk, supra.*

In addition, a practical consideration relevant to the matter of disclosure is that inventions disclosed to the Patent Office, upon the filing of a patent application, are maintained in secret until a patent is granted. 35 U.S.C. 112; *Plastic and Metal Fabricators Inc.* v. *Roy,* 175 U.S.P.Q. 49 (Conn. Sup. Ct., 1972). While on one hand this has been urged as indicative of a Congressional intent to maintain open the inventor's choice, between a trade secret and patent, at least until it has been determined that a patent will be accorded, on the other hand, it should not be overlooked that this pendency may be as long as two or three years, or longer. See *Lear, Inc.* v. *Adkins,* 395 U.S. 653, 658 (1969). One must therefore wonder whether trade secrets do not often reach the public in a shorter time than do disclosures to the Patent Office. The answer to this question, however, is beside the mark, since the true Congressional intent is to leave the choice of disclosure to the inventor unless a patent is sought.

Turning to the objective of securing a dedication of the invention to the public after a fixed period of exclusivity, this objective, like that of a full disclosure, is coupled with the grant of a patent. Thus, if one were to secure a patent and then attempt to avoid the required dedication, a clear frustration of this Congressional objective would be present. Indeed, if a State law was effective to bring about this result, the State law would fall under the Supremacy Clause. *Singer Mfg. Co.* v. *June Mfg. Co.*, 163 U.S. 169 (1896); *Kellog Co.* v. *National Biscuit Co.*, 305 U.S. 111 (1938); *Scott Paper Co.* v. *Marcalus Mfg. Co., supra.*

Where, however, one is not in the position of having secured a patent, but instead has just made an invention, as discussed above, he has a choice of maintaining it secret or patenting it—and the requirement of dedication after a fixed period, as that of full disclosure, comes about only when the choice of patent protection has been made.

Moreover, even though the duration of a trade secret is indefinite, though not perpetual, it is a rare case, especially in today's technology, where a trade secret can outlast the 17 year life of a patent.

Nor is there any conflict between trade secret protection and the requirement of a prompt disclosure after a public use, when a patent is desired—which the Court of Appeals found to be of great significance in this case. In this regard, the Court relied on 35 U.S.C. 102(b), which precludes the filing of a patent application more than one year after an invention has been placed on sale or appears in a publication or in public use.[6] This requirement of a

[6] Since the *use* in the present case was secret, and not public, it cannot serve to bar the filing of a patent application by an independent inventor who had no knowledge of it. See, e.g. Judge Hand's opinion in *Gillman* v. *Stern*, 114 F. 2d 28, 46 U.S.P.Q. 430 (2 Cir. 1940). Thus, it cannot properly be designated a "public use" within 35 U.S.C. 102(b). It is for this reason that Judge Hand characterized it as a *forfeiture* by the inventor in *Metallizing En-*

prompt disclosure has no meaning when it is applied to trade secrets, since the subsistence of a trade secret is predicated upon non-disclosure. Rather, this is another instance where the requirement is an incident of an inventor's choice to secure patent protection. Here again, one has the choice of maintaining his invention secret, or filing a patent application with a prompt and full disclosure. Thus, in *Metallizing Engineering Co.* v. *Kenyon Bearing & Auto Parts, supra,* Judge Learned Hand stated that:

> . . . it is a condition upon an inventor's right to a patent that he shall not exploit his discovery competitively after it is ready for patenting; he must content himself with either secrecy, or legal monopoly. 153 F. 2d at 520.

In summary, there is no conflict between the trade secret laws and either the Constitutionally expressed objective or other recognized objectives of the Patent Laws, and, in fact, as long ago recognized, trade secrets and patents are alternative forms of protection, each having its own nature and scope of operation. See *Reid* v. *Colorado,* 187 U.S. 137, 150 (1902).

Nor can it be presumed that in adopting the Patent Laws, Congress attempted to so occupy the field of intellectual property rights in "patentable" technology as to preclude State trade secret protection in this area. As this court has indicated on several occasions, such an unexpressed intention to preempt State power is not lightly to be attributed to Congress. See, *e.g., Parker* v. *Brown, supra.*

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gineering, analogizing it to the public use bar of Section 102(b), after there had been secret commercial use for a one-year time duration. While some courts have simply referred to it as a Section 102(b) "public use" bar applicable only to the users and those in privy with them, see, e.g. *Robine* v. *Apco Inc.,* 386 F. 2d 267 (2 Cir. 1967); *Pickering* v. *Holman,* 459 F. 2d 403 (9 Cir. 1972), it should nevertheless be understood that this use is not one which discloses the invention to the public.

In the present case the opposite intention appears clear. As indicated above, long prior to the adoption of the 1952 Patent Code the decisions of this Court spoke on the subject of and upheld trade secrets, both as to patentable and non-patentable subject matter. And the same is true as to other courts and other authorities. See *Painton & Co.* v. *Bourns Inc., supra,* 442 F. 2d at 225; and Comment b of Section 759 of the *Restatement of Torts* (1939), which states that "A trade secret may be a device or process which is patentable; but it need not be that."

The adoption of the 1952 Patent Act, without any indication that Congress intended to abrogate the long-standing rulings of this Court, and other authorities, as well as the long-standing and well-known use and reliance upon trade secrets in industry, makes it clear that no such abrogation was intended. *Townsend* v. *Yeomans,* 301 U.S. 441 (1937); and see *Graham* v. *John Deere Co.,* 383 U.S. 1, 17 (1966), where this Court held that the 1952 Patent Act intended to codify judicial precedents in another area, namely those dealing with the level of innovation required to secure a patent.

Moreover, Congress has made clear its intention to uphold trade secrets by its recognition of trade secret rights in at least the following statutes, some of which appear to be directed specifically to trade secrets in "patentable" subject matter[7]:

5 U.S.C.
§ 552(b)(4) excluding trade secrets from the information federal agencies must make public

15 U.S.C.
§ 46(f) excluding trade secrets from the information the FTC may make public

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[7] See, also, Rule 26(c) of the Federal Rules of Civil Procedure, adopted in 1937; Rule 508 of this Court's proposed Rules of Evidence; Revenue Procedure 69-19 of the Internal Revenue Service.

§ 78x(a) excluding from the powers of the SEC the right to require that trade secrets or processes be revealed

§ 1193(c) requiring trade secrets received by the Secretary of Commerce, in relation to fabric flammability standards or regulations, to be considered confidential

§ 1263(h)[8] prohibiting use or disclosure of any information concerning any method or process which is a trade secret, which has been acquired in connection with HEW inspection and investigation of hazardous substances

§ 1401(e) requiring trade secrets received by the Transportation Department, in the inspection and investigation of federal vehicle safety standards, to be considered confidential

18 U.S.C.

§ 1905 making it a crime for any United States officer or employee to disclose trade secrets which come to him in the course of his duties

21 U.S.C.

§ 331(j)[8] prohibiting use or disclosure of any information concerning any method or process which is a trade secret, which has been acquired in the administration of the Food, Drug & Cosmetic Act

§ 458(a)(5) prohibiting use or disclosure of trade secrets acquired in the administration of the Poultry Products Inspection Act

33 U.S.C.

§ 1160(f)(2)[8] excluding trade secrets and secret processes from reports which can be required at public hearings under the Federal Water Pollution Control Act

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[8] The reference in this statute to methods or processes which are trade secrets would seem to suggest patentable subject matter within 35 U.S.C. 101.

42 U.S.C.

§ 2631i(e) prohibiting disclosure by HEW of trade secrets obtained in enforcing the Radiation Control for Health and Safety Act

§ 1857d(j)(1)[8] providing that no witness shall be required to divulge trade secrets or secret processes in any conference under the Clean Air Act

§ 1857f-6(c) requiring trade secrets, received by HEW in connection with the registration of vehicle fuel additives, to be considered confidential (apparently not continued in the 1970 Amendment)

Thus, no intent to preempt the field can be ascribed to Congress, and, in short, there is no area in which trade secrets, whether on patentable subject matter or not, can be found to be in conflict with or an obstacle to the objectives or operation of the Patent Laws.

D. The Court of Appeals erred in its application of the rulings of earlier cases to the circumstances of the present case.

At the outset of its discussion of the law, the Court below stated that while the issue of federal preemption of field of protection for inventions has never been clearly presented to this Court, "the language of certain early cases suggests that the Supreme Court was of the opinion that the Patent Laws provided the exclusive means and remedies for the protection of inventors, and that no other monopoly was available". 478 F.2d at 1801. The court then quoted extensively from the cases of *Grant* v. *Raymond, supra,* and *Kendall* v. *Windsor,* 62 U.S. (21 How) 322 (1858). 478 F.2d at 1081-2.

The passage quoted by the Court of Appeals from Mr. Chief Justice Marshall's opinion in *Grant* v. *Raymond* merely states that the great object and intention of the

[8] The reference in this statute to methods or processes which are trade secrets would seem to suggest patentable subject matter within 35 U.S.C. 101.

Patent Laws, referring to the Patent Act then in effect, is to assure to the public the benefits of discoveries, and further, that the means this Act employs to achieve this objective is to grant to inventors exclusive rights in their discoveries for a limited time. It is difficult to see what the Court below found in this passage to suggest that the Patent Laws provide "the exclusive means" to protect inventors, unless there was some confusion over Mr. Chief Justice Marshall's language which spoke of the "means" employed by the Act being the grant of "exclusive" rights.

In any event, the Court below stated "That this concept of the patent laws continued to be the view of the Supreme Court is emphasized in *Kendall* v. *Windsor*"—thus underscoring the emphasis the Court was apparently placing upon what appears to be a misinterpretation of the passage quoted from *Grant* v. *Raymond*. Moreover, the passage quoted from the *Kendall* case is perhaps even more misleading, at least when separated from the context of that case. This passage states in part that:

> . . . the inventor who designedly, and with the view of applying it indefinitely and exclusively for his own profit, withholds his invention from the public, *comes not within the policy or objects of the Constitution* or acts of Congress. He does not promote, and, *if aided in his design*, would impede, the progress of science and the useful arts. (Emphasis is that of the Court of Appeals in this case.) 478 F.2d at 1082.

To understand the nature of the conduct being assailed in the foregoing passage, it should be understood that the *Kendall* case was a patent infringement suit, not a trade secret suit. Further, the Court was discussing the conduct of one who maintains his invention in secret indefinitely, until someone else learns of it or independently invents it, and he then applies for and obtains a patent to secure a 14 year (now a 17 year) exclusive grant. This obviously frustrates the Congressional plan of allowing inventors the choice of *either* a trade secret for an indefinite time

or an exclusive grant for a definite term, but not both. See *Metallizing Engineering, supra,* 153 F.2d at 520; also see the discussion of *Pennock & Sellers* v. *Dialogue, supra,* in the *Kendall* opinion, 62 U.S. (21 How) at 330.

Thus, the reliance of the Court below on the early cases of this Court as suggesting that the Patent Laws provide "the exclusive means and remedies" for the protection of inventions, and its application of this rule to the present case to find a federal preemption of "patentable" trade secrets, appear to be clearly in error.

The Court below also quoted from this Court's opinion in *Scott Paper Co.* v. *Marcalus Manufacturing Co., supra,* emphasizing the requirement of the Patent Laws that there be a full disclosure and dedication to the public on the expiration of the patent, in return for the grant of a patent, as already discussed. And it discussed some of the other decisions of this Court, which have found conflicts to exist between certain State laws and the Patent Laws. These include *Singer Mfg. Co.* v. *June Mfg. Co., supra; Kellog Co.* v. *National Biscuit Co., supra; Scott Paper Co.* v. *Marcalus Mfg. Co., supra; Sears, Roebuck Co.* v. *Stiffel Co.,* 376 U.S. 225 (1964); *Compco Corp.* v. *Day-Brite Lighting,* 376 U.S. 234 (1964); and *Lear Inc.* v. *Adkins, supra.*

These cases fall broadly into two categories. The first concerns situations where patents have already been granted, and thereafter there is reliance upon a state law to frustrate one of the conditions upon which the grant was predicated. This includes *Singer Mfg. Co.* v. *June Mfg. Co., supra,* where patented machines had come to be known as "Singers" while the patents existed, during which time the machines could be sold only by the patent owner, and, consequently, this Court found that a perpetuation of the exclusive rights in this name would impede the sale of the machines by others, and be tantamount to a continuation

of the patent monopoly beyond the expiration of the patents. Also, it includes *Kellog Co.* v. *National Biscuit Co., supra,* where the same was true as to the name "shredded wheat" and the pillow-shape design of the shredded wheat biscuit, and *Scott Paper Co.* v. *Marcalus Mfg. Co., supra,* where a long-standing State law of estoppel against an assignor attacking the validity of a patent he had assigned was vitiated, at least where the assignor could establish that the patent claims covered an invention disclosed in an expired patent.

Lastly, it includes *Lear Inc.* v. *Adkins, supra,* where the Court rejected a reliance upon the state law of licensee estoppel, which had theretofore been invoked many times to preclude licensees from challenging the validity of a patent under which they were licensed, thus impeding a federal court's determination as to whether the patentee had complied with the condition of patentability in securing his patent. See *Graham* v. *John Deere Co., supra.*

The second category of preemption cases includes *Sears* and *Compco* (and *Goldstein* on the copyright side, which is not relevant to our discussion here). These cases involve direct action on the part of a State to grant substantially the equivalent of patent protection without requiring that the essential conditions of patentability of the Patent Laws have been met.

While in *Sears* and *Compco* patents had been granted, their principal relevance is that they were held invalid for want of invention, and in one instance actually refused by the Patent Office, so that they demonstrate that the devices in suit (pole lamps and light reflectors) did not meet the standards of patentability established by the Patent Laws. These cases concerned a State unfair competition law which was held to preclude copying of the devices in suit. In striking down this law as being in conflict with the Patent Laws, this court stated that the effect of the law was to grant "perpetual protection to articles too lacking

in novelty to merit any patent at all under federal constitutional standards." *Sears, supra,* 376 U.S. at 232. Further, it stated:

> . . . because of the federal patent laws a State may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article itself or award damages for such copying . . . The judgment below did both and in so doing gave Stiffel the equivalent of a patent monoply on its unpatented lamp. *Sears,* 376 U.S. at 232-3

This Court in its *Goldstein* decision, commented on *Sears* and *Compco* as follows:

> . . . In those [Sears and Compco] cases, the question was whether a State could, under principles of a state unfair competition law, preclude the copying of mechanical configurations which did not possess the qualities required for the granting of a federal design or mechanical patent. 412 U.S. at 569.

Thus, the preemption decisions of this Court, whether of the first or second categories discussed, have concerned only the patent grant itself being wrongfully continued, as in *Scott* and *Lear,* or State laws which grant protection "identical with . . . [that] which sprang from the existence of the [patent] monoply", as in *Singer* and *Kellog,* or State laws which grant "the equivalent of a patent monopoly", as in *Sears* and *Compco.* See *Singer, supra,* 163 U.S. at 183; *Sears, supra* 376 U.S. at 233. For the reasons already discussed, trade secret protection is not identical in effect to, or the equivalent of, a patent monoply—and, consequently, the patent preemption decisions of this Court are not applicable to trade secrets.

Lastly, the Court below erred in relying upon the one year public use bar applicable to the filing of patent applications, as constituting a forfeiture of all rights to secure patent protection, so as to preclude the enforcement of trade secret protection, since, as already discussed, the

one year public use bar has no meaning when applied to trade secrets.

In summary, the Court below erred in finding a suggestion in the early cases of this Court that patent laws provide "the exclusive means" of protection for inventions, in applying the rule of the foregoing Patent Law preemption cases of this Court to trade secrets, and in its reliance upon the one-year commercial use of the trade secrets in suit as constituting a relevant forfeiture.

CONCLUSION

For all of these reasons, the holding of the Court of Appeals that the trade secret laws of Ohio are preempted by the Patent Law should be reversed.

Respectfully submitted,

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JAMES B. CAMPBELL
OF COUNSEL

October 30, 1973

Edward P. Troxell, Esq.
Jones, Day, Cockley & Reavis
1750 Union Commerce Building
Cleveland, Ohio 44115

Re: Kewanee Oil Co. v. Bicron Corp. et al.

Dear Mr. Troxell:

Confirming our telephone conversation of last week, on behalf of the New York Patent Law Association, I am requesting the consent of Kewanee Oil Company to our filing of an amicus curiae brief on the merits in the United States Supreme Court in the above-entitled case.

I understand from our telephone conversation that you are willing to give your consent on behalf of Kewanee. If so, please indicate this consent on the enclosed two copies of this letter, and return them to me for filing in the Supreme Court.

Yours truly,

Steven R. Biren

Steven R. Biren, Secretary
Special Committee on Amicus Brief
New York Patent Law Association

SRB:sa
Enclosure

CONSENT

Kewanee Oil Company, Plaintiff-Appellant, hereby consents to the filing of an amicus brief on the merits, in the above-captioned case in the Supreme Court of the United States, by the New York Patent Law Association.

Edward P. Troxell

Counsel for Kewanee Oil Company

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CHARLES P. DOWD
IVAN S. KAVRUKOV
DUNCAN H. ZIVIN

October 30, 1973

William C. McCoy Jr., Esq.
Bosworth, Sessions & McCoy
625 National City Bank Building
Cleveland, Ohio 44114

Re: Kewanee Oil Co. v. Bicron Corp. et al.

Dear Mr. McCoy:

Confirming our telephone conversation of last week, on behalf of the New York Patent Law Association, I am requesting the consent of Bicron Corporation to our filing of an amicus curiae brief on the merits in the United States Supreme Court in the above-entitled case.

I understand from our telephone conversation that you are willing to give your consent on behalf of Bicron. If so, please indicate this consent on the enclosed two copies of this letter, and return them to me for filing in the Supreme Court.

Yours truly,

Steven R. Biren

Steven R. Biren, Secretary
Special Committee on Amicus Brief
New York Patent Law Association

SRB:sa
ENCLOSURE

CONSENT

Bicron Corporation, Defendant-Respondent, hereby consents to the filing of an amicus brief on the merits, in the above-captioned case in the Supreme Court of the United States, by the New York Patent Law Association.

Counsel for Bicron Corporation

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Supreme Court, U. S.
FILED
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MICHAEL RODAK, JR., CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY,
Petitioner,
v.
BICRON CORPORATION, ET AL.,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

---

BRIEF FOR AMICUS CURIAE R. J. REYNOLDS INDUSTRIES, INC.

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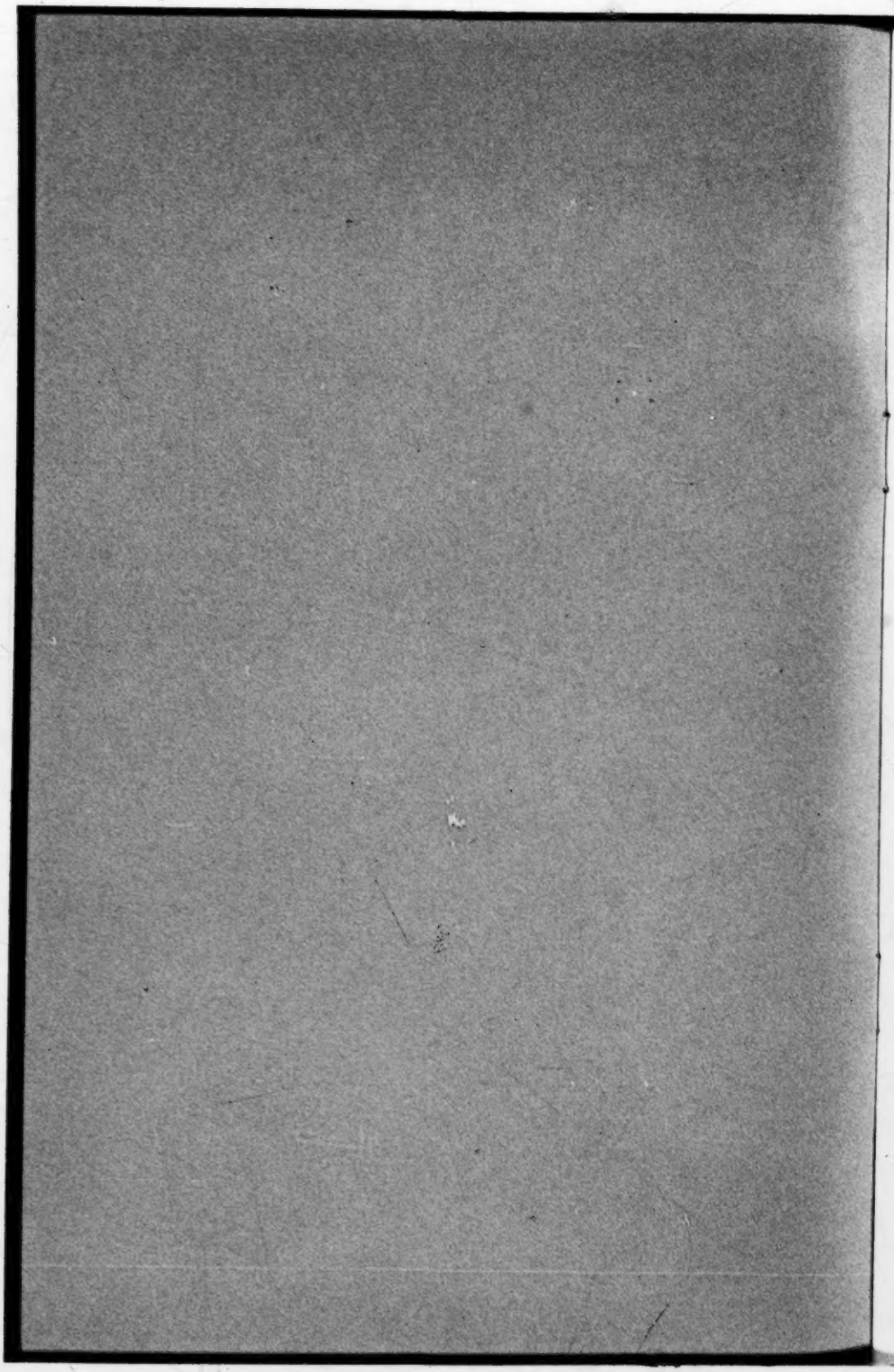

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY,
Petitioner,

v.

BICRON CORPORATION, ET AL.,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

---

BRIEF FOR AMICUS CURIAE R. J. REYNOLDS INDUSTRIES, INC.

Amicus Curiae, R. J. Reynolds Industries, Inc., prays that the decision of the Court of Appeals for the Sixth Circuit in *Kewanee Oil Company* v. *Bicron Corporation, et al.*, dated May 10, 1973, be reversed.

OPINION BELOW

The opinion of the Court of Appeals is reported at 478 F. 2d 1074.

JURISDICTION

The judgment of the Court of Appeals for the Sixth Circuit was entered on May 10, 1973. A petition for a

writ of certiorari was filed July 27, 1973, and was granted October 9, 1973. The jurisdiction of this Court rests on 28 U.S.C. 1254(1).

CONSENT TO FILE

The petitioner and the respondents have consented in writing to the filing of a brief for amicus curiae, R. J. Reynolds, Industries, Inc. (Appx. A and B)

INTEREST

R. J. Reynolds Industries, Inc. is a Delaware corporation located in Winston-Salem, North Carolina, with subsidiaries located and doing business under the laws of the State of North Carolina and elsewhere throughout the United States. R. J. Reynolds Industries, Inc. and its subsidiary corporations are engaged in the manufacture, research, development and the licensing of technology pertaining to the aluminum, food, tobacco and transportation industries in which trade secrets are a major factor in encouraging competition while, so long as secret, assisting in the preservation of the company's competitive position.

R. J. Reynolds Industries, Inc. and its subsidiaries have entered into and have recognized trade secret agreements in compliance with the laws of North Carolina and other states, but, if upheld as the law of the land, the decision of the Court of Appeals of the Sixth Circuit in *Kewanee Oil Company* v. *Bicron Corporation, et al.* would overrule a long established body of the law, would vitiate the trade secret laws of over twenty states, including North Carolina, and would extend the scope of Article I. Section 8 of the Constitution beyond the realm intended by the framers of the Constitution, the Congresses of the United States and this Honorable Court. Such an extension would irreparably damage R. J. Rey-

nolds Industries, Inc. and its stockholders and employees, the businesses and people of North Carolina and the public at large throughout the United States.

QUESTION PRESENTED

Does Article I. Section 8 (clause 8) of the Constitution and the Patent Laws adopted pursuant thereto preempt State Trade Secret Laws and thereby destroy a citizen's privilege to enjoy, express or lawfully imposed, confidential contractual relationships with others?

STATUTES INVOLVED

Article I. Section 8 (clause 8) of the Constitution:

> "The Congress shall have Power—
>
> * * * *
>
> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective writings and Discoveries;—"

Title 35, United States Code, Section 101—Inventions Patentable

> "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." July 19, 1952, C. 950, § 1, 66 Stat. 797.

STATEMENT

On May 10, 1973, the Court of Appeals for the Sixth Circuit, in reversing the lower Court (Unrep.), held that the field of protection afforded by the Trade Secret Laws of the State of Ohio (which are substantially the same as those of twenty-one other states, including North

Carolina, had been preempted by the Patent Laws of the United States. While acknowledging that other Courts of Appeals have refused to declare a conflict between the United States Patent Laws, on the one hand, and the Trade Secrets Laws of certain states (California, Georgia, New York and Virginia), on the other hand, the Court of Appeals for the Sixth Circuit ruled that a state trade secret law which protects an invention which would be appropriate subject matter for a patent under the Patent Laws, conflicts with the policies and purposes of Article I, Section 8 (clause 8) of the Constitution and the Patent Laws adopted pursuant thereto.

SUMMARY OF ARGUMENT

Article I, Section 8 (clause 8) of the Constitution and the Patent Laws adopted pursuant thereto, were not intended, and are not, now, to be interpreted to preempt trade secrets whether directed to patentable or other subject matter. The dictates of this Court and other Courts of Appeals, the legislation of Congress and the states and the writings of acknowledged authorities confirm this conclusion. Moreover, any other conclusion could only lead to an unintended usurpation of States' rights, a degradation of business morality and economic chaos to the detriment of fair and open competition and the public interest.

ARGUMENT

It is submitted, with respect, that the decision of the Court of Appeals for the Sixth Circuit in *Kewanee Oil Company* v. *Bicron Corporation et al.* is erroneous and should be reversed.

The decision is in conflict with all known law. It is in conflict with the intent of the Constitution, with the intent of Congress, its laws and treaties, and is in direct conflict with the decisions of this Court and with

the decisions of Courts of Appeals of other circuits. Equally alarming, the decision, in effect, overrules a time-honored body of the common law and at least twenty-one state statutes based thereon.

TRADE SECRETS DEFINED

By definition, trade secrets are:

(1) "Information respecting the business or process of production of a dealer or producer of special value to him in reference to competitors. 52 Am J 1st Tradem § 118

(2) "Secrets of any character peculiar and important to the business of the employer which have been communicated to an employee of the employer in the course of a confidential employment. 35 Am J 1st M & S § 96

(3) "Information relative to an industrial process or the conduct of a business, known only to the owner and those of his employees to whom it is necessary to confide if the fact known is to be made of value or, at any rate not available to the trade generally. 28 Am J Rev. ed Inj § 72." [1]

Restated,

> "A trade secret may consist of any formula, pattern, device, plan or compilation of information which is, or is designed to be used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, or a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.—
>
> * * * *

[1] Ballentines' Law Dictionary, 1969, The Lawyer's Cooperative Publishing Company.

> "The subject matter of a trade secret must be secret—and is known only in the particular business in which it is used.—"[2]

The foregoing definitions were not evolved *in vacuo*. They are the result of the law, statutory and judicial, which without authority or background, the Sixth Circuit Court of Appeals has sought to modify or obliterate.

THE CONSTITUTION AND THE PATENT LAWS ADOPTED PURSUANT THERETO WERE NOT INTENDED TO PREEMPT TRADE SECRET LAWS

A detailing of the intent of the framers of the Constitution appears superfluous in view of this Honorable Court's recent review of Article I, Section 8 (clause 8) in *Goldstein* v. *California*, June 19, 1973, —— U.S. ——, 93. S. Ct. 2303, —— L.Ed. ——. It is sufficient to say that the Court noted "—the objective of the Copyright (Patent) Clauses was clearly to facilitate the granting of rights national in scope—" 93 S. Ct. 2309, but that, "—under the Constitution, the States have not relinquished all power to grant to authors (and inventors) the exclusive Right to their respective Writings (and Discoveries) 93 S. Ct. at 2311, [parenthetical inserts of Amicus]. Moreover, "While the area in which Congress *may* act is broad, the enabling provision of Clause 8 does not require that Congress act in regard to all categories of materials which meet the constitutional definitions." 93 S. Ct. at 2312.

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[2] Restatement of the Law, Second, TORTS, Section 757, Comment b, Council Draft No. 13 (Trade Practices) February 4, 1963, (Understood to be planned for public release, unchanged, in early 1974), cf. 1939 ed.

CONGRESS HAS NOT ACTED TO PREEMPT TRADE SECRETS UNDER THE PATENT LAWS; IT HAS ACTED HOWEVER TO PRESERVE TRADE SECRETS

Any Congressional intent to preempt trade secrets is totally absent from the Patent Act, and any inclusion of trade secrets in the Patent Laws would be repugnant to other Congressional Acts and the Common Law. Congress has gone out of its way to preserve trade secrets by excluding them from numerous statutory enactments which specifically bar the government and others from using or disclosing trade secrets, including those unquestionably in the public interest, such as those pertaining to fabric flammability, hazardous substances, etc.[3] Similarly, the Congress, more particularly the United States Senate, has ratified many treaties which recognize the trade secrets of foreign nationals in one form or another.[4] Without more, and there is more, it must shock this Court's conscience to observe that the effect of the decision of the Court of Appeals of the Sixth Circuit is, not only to permit, but to grant foreign nationals trade secret rights superior to those of their counterparts in the United States.

THE DECISION OF THE COURT OF APPEALS FOR THE SIXTH CIRCUIT CONFLICTS WITH DECISIONS OF THIS COURT AND COURTS OF APPEALS OF OTHER CIRCUITS

Forty years ago, this Court recognized that an inventor could:

> "—keep his invention secret and reap its fruits indefinitely.—" [5]

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[3] See "Trade Secrets" by Roger M. Milgrem, Pub. 1973, Mathew Bender, p. 7-70.17 (Appx. C).

[4] E.g. Paris Convention Act of Lisbon, 1958, Art. 10 Bis (2); American Convention, 1929, Art. 20, 46 Stat. 2907.

[5] United States v. Dubilier Condensor Corp., 1933, 289 U.S. 178, 186, 53 S. Ct. 554, 557.

More significantly, the Court recognized that

> "—a patent is not, accurately speaking, a monopoly, for it is not created by the executive authority at the expense and to the prejudice of all the community except the grantee of the patent.—An inventor deprives the public of nothing which it enjoyed before his discovery, but gives something of value to the community by adding to the sum of knowledge. (Citations)"

Justice Roberts' words, previously quoted, are even more compelling today in the maze of competition where an inventor of an unpatentable invention only has the law of trade secrets to protect him, and then only if his contribution remains secret. Contrary to the decision of the Court of Appeals for the Sixth Circuit, a trade secret law does not maintain a monopoly.

That is, the first developer of a secret process is not permitted, under the Trade Secret Laws, to exclude others from actively attempting to duplicate the secret process, and when duplicated, to bar competition in the market place. In contrast, the monopoly privilege granted under the patent laws precludes a second developer of the secret process from capitalizing on his discovery for a fixed term, notwithstanding the fact that his discovery was independently conceived and developed. However, the owner of a trade secret is only able to preclude those persons whom he has taken into his confidence or those individuals who have tortiously or criminally appropriated the secret.

The rationale of the *Dubilier* case quoted above finds precedent from this Court in an earlier decision by Justice Holmes[6] wherein trade secrets were upheld because of an abuse of trust, the usual incident of confidential relations. Twelve years later the Court upheld State

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[6] E. I. DuPont de Nemours Powder Company v. Walter Masland et al., 1917, 244 U.S. 100, 102, 35 S. Ct. 575, 576.

trade secret causes of action for "the breach of contract or wrongful disregard of confidential relations, both matters independent of the patent laws".[7]

For the reasons heretofore expressed in, and based upon the decisions of this Court, the Courts of Appeals for the Second,[8] Fourth,[9] Fifth[10] and Ninth[11] Circuits have upheld the law of trade secrets. Similarly, twenty-one States have prohibited the improper or unfair appropriation of trade secrets by breach of contract or wrongful disregard of confidential relations (Appx. D).

Equally pertinent to any consideration of the recognition of trade secrets are this Court's proposed Federal Rules of Evidence, specifically, Rule 508 which provides, in part:

> "A person has a privilege, which may be claimed by him or his agent or employee, to refuse to disclose and to prevent other persons from disclosing a trade secret owned by him, if the allowance of the privilege will not tend to conceal fraud or otherwise work injustice.—."

This proposed rule complements the existing Rule 26(c) of the Federal Rules of Civil Procedure, which provides for the issuance of protective orders

> "(7) that a trade secret or other confidential research, development, or commercial information not

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[7] Becher v. Contoure Labs., Inc., 1929, 279 U.S. 388, 391, 49 S. Ct. 356, 357.

[8] Painton & Company, Ltd. v. Bourns, Inc., 1971, 2nd Cir., 442 F. 2d 216.

[9] Servo Corporation of America v. General Electric Company, 1964, 4th Cir., 337 F. 2d 716, Cert. Den. 383 U.S. 934.

[10] Water Services, Inc., et al. v. Tesco Chemicals, Inc., et al., 1969, 5th Cir., 410 F. 2d 163.

[11] Dekar Industries, Inc. v. The Bissett Berman Corporation, 1970, 9th Cir., 434 F. 2d 1304, Cert. Den. 402 U.S. 945.

be disclosed or be disclosed only in a designated way;—"

KEWANEE v. *BICRON* DECISION UNDERMINES BUSINESS MORALITY AND PRACTICES

It is axiomatic that the law is but the rules that men live by, but men have not and cannot live by the rule of *Kewanee* v. *Bicron*. The practical application and the effect of the decision is repugnant to the mores of the business community. It can only result in "know-how" or technology communes, not the desired and sought after higher standards of business morality.

If trade secret laws could be considered preempted by the patent laws, the centuries old laws relating to inducements to breach a contract and unjust enrichment would have to be materially modified, if not discarded. Industrial espionage and personnel disloyalty would be encouraged and run rampant.

The framers of the Constitution, many Congresses and this Court never intended the taking of trade secrets by unlawful means or by an inducement to breach a contract, but this could be the appalling result of an affirmance of the decision in *Kewanee* v. *Bicron*.

For example, an unethical businessman would be free to induce a competitor's production or research manager to breach his contract of employment for the purpose of acquiring trade secrets and to save development costs. The original employer's entire work product would be lost. The danger of this occuring is particularly evidenced by today's climate of employment mobility which shall be further enhanced by the passage of a bill (presently pending before Congress) vesting pension rights in employees.

Furthermore, secret formulas covering diverse products such as soft drinks and tobacco blends, which subsi-

diaries of R. J. Reynolds Industries, Inc. have and which have been kept secret and secure for generations, may be compromised.

Trade secret piracy practices are ethically and morally indefensible, and are unsupportable even under the misapplied doctrine favoring the full and free use of ideas in the public domain. The fallacy lies in the fact that trade secrets have never been, are not now and never should be in the public domain.

The public interest, which the Court of Appeals for the Sixth Circuit sought to serve, is the real loser under, and the most adversely affected by, the decision in *Kewanee* v. *Bicron*. If sustained, existing contracts between producers will be so frustrated that agreements for the exchange of know-how and technology leading to a more available, a better or a less expensive product will be a thing of the past. Production may be limited, employment may be restricted, competition lessened and the public deprived of the benefit of valuable and, heretofore, protected trade secrets. The deplorable effect on the economy, domestically and internationally, could be disastrous.

CONCLUSION

Practically, equitably, legally and morally, the doctrine enunciated in *Kewanee Oil Company* v. *Bicron Corporation, et al.* has no place in the law of the United States. The decision of the Court of Appeals for the Sixth Circuit should be reversed.

Respectfully submitted,

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Arlington, Virginia 22202
Tel. (703) 521-5200

Attorney for Amicus Curiae
R. J. Reynolds Industries, Inc.

November —, 1973

Of Counsel:

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R. J. REYNOLDS INDUSTRIES, INC.
Reynolds Building
Winston Salem, North Carolina
Tel. (919) 748-7622

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing Brief for Amicus Curiae, R. J. Reynolds Industries, Inc. were served by mail, postage prepaid this 23 day of November, 1973, on Mr. Barry L. Springel, c/o Jones, Day, Cockley & Reavis, 1750 Union Commerce Building, Cleveland, Ohio, 44115, counsel for Petitioner and Mr. William C. McCoy, Jr., Bosworth, Sessions & McCoy, 625 National City Bank Building, Cleveland, Ohio, 44114, counsel for Respondent.

APPENDICES

APPENDIX A

GEORGE B. JONES
HARRIS C. LOCKWOOD
IRVING M. TULLAR
GEORGE M. COOPER

DONALD G. JACKSON
DOUGLAS R. HANSCOM

M. WALTER MAEUSSLER
(PENNSYLVANIA BAR ONLY)

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ARLINGTON, VIRGINIA 22202

November 5, 1973

Mr. William C, McCoy, Jr.
Bosworth, Sessions & McCoy
625 National City Bank Building
Cleveland, Ohio 44114

RECEIVED

Re: Kewanee Oil Company vs.
Bicron Corporation, et al.
Supreme Court, October
Term, 1973, No. 73-187

Dear Mr. McCoy:

Supplementing our telephone call of earlier today, we hereby request your consent, on behalf of the Respondents, Bicron Corporation, et al. to file a brief for amicus curiae, R. J. Reynolds Industries, Inc., a corporation of the State of Delaware, located and doing business in Winston Salem, North Carolina.

The brief for amicus curiae Reynolds will be in support of the position of Petitioner, Kewanee Oil Company, because the decision of the Sixth Circuit Court of Appeals is believed to be in conflict with the laws of North Carolina.

Very truly yours,

JONES AND LOCKWOOD

By: Harry C. Lockwood

IMT/rmm

CONSENT:

Bicron Corporation, by its counsel, hereby consents to the filing of a brief for amicus curiae, R. J. Reynolds Industries, Inc.

11/6/73 William C. McCoy, Jr.
Date

RECEIVED
JONES & LOCKWOOD
NOV 8 1973
NOTED

APPENDIX B

GEORGE R. JONES
HARRIS C. LOCKWOOD
IRVING W. FULLER
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DONALD O. JACKSON
DOUGLAS D. HANSCOM

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November 5, 1973

Barry L. Springel, Esquire
Jones, Day, Cockley & Reavis
1750 Union Commerce Building
Cleveland, Ohio 44115

Re: Kewanee Oil Company vs.
Bicron Corporation, et al
Supreme Court, October
Term, 1973, No. 73-187

Dear Mr. Springel:

Supplementing our telephone call of earlier today, we hereby request your consent, on behalf of Petitioner, Kewanee Oil Company, to file a brief for amicus curiae, R. J. Reynolds Industries, Inc., a corporation of the State of Delaware, located and doing business in Winston Salem, North Carolina.

The brief for amicus curiae Reynolds will be in support of your position, as counsel for the Petitioner, Kewanee Oil Company. The decision of the Sixth Circuit Court of Appeals is believed to be conflict with the laws of North Carolina and the decision of the Fourth Circuit Court of Appeals and others.

Very truly yours,

JONES AND LOCKWOOD

By: Irving W. Fuller

IWF/rmm

CONSENT:

Kewanee Oil Company, by its counsel, hereby consents to the filing of a brief for amicus curiae, R. J. Reynolds Industries, Inc.

11/6/73 Barry L. Springel
Date Barry L. Springel

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JONES & LOCKWOOD
NOV 8 1973
NOTED

APPENDIX C

The Freedom of Information Act, 5 U.S.C. § 552(b)(4) prohibiting federal agency disclosure of trade secrets; 18 U.S.C. § 1905 making it a federal crime for a United States officer or employee to disclose a trade secret; Section 24 of the Securities Exchange Act of 1934, 15 U.S.C. § 78x, preventing the SEC from requiring that trade secrets or processes be revealed; Section 6(f) of the FTC Act, 15 U.S.C. § 46(f), preventing the FTC from making trade secrets public; 15 U.S.C. § 1193(c) requiring trade secrets received by the Commerce Department in reference to fabric flammability regulations to be considered confidential; 15 U.S.C. § 1263(h) prohibiting any person from using or disclosing trade secrets required in connection with HEW inspection and investigation of hazardous substances; 15 U.S.C. § 1401(e) requiring trade secrets received in Transportation Department inspection and investigation of federal vehicle safety standards to be considered confidential; 21 U.S.C. § 331(i) prohibiting any person from using or disclosing information concerning methods or processes required under Food, Drug & Cosmetic Act which are trade secrets; 21 U.S.C. § 458(a)(5) prohibiting use or disclosure of trade secrets acquired under Poultry Products Inspection Act; 33 U.S.C. § 466g(f)(2) excluding trade secrets from being disclosed at public hearings under Federal Water Pollution Control Act; 42 U.S.C. § 263i(e) prohibiting disclosure by HEW of trade secrets obtained in enforcing Radiation Control for Health and Safety Act of 1968; 42 U.S.C. § 1857d(c)(5) providing that no witness shall be required to divulge trade secrets in any hearings under Clean Air Act; 42 U.S.C. § 1857f-6c(c) requiring trade secrets obtained by HEW in connection with registration of vehicle fuel additives to be considered confidential; and § 35 U.S.C. 122 providing for the preservation of applications for patent in secrecy until the patent issues, i.e., until the applicant knows what patent protection he is going to get and thereafter authorizes issuance of the patent.

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Mich. Compl. Laws §§ 752.771 to 752.773 (1968)

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N.J. Stat. Ann. §§ 2A: 119-5.1 to 199-5.5 (1965)

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Pa. Stat. Tit. 18, § 4899.2 (1965)

Tenn. Code Ann. §§ 21-4238 to 21-4240 (1967)

Wis. Stat. Ann. § 943.205 (1965)

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IN THE

Supreme Court of the United States

OCTOBER TERM 1973

No. 73-187

KEWANEE OIL COMPANY,
Plaintiff-Petitioner,

v.

BICRON CORPORATION ET AL,
Defendants-Respondents.

BRIEF AMICUS CURIAE
of
THE LICENSING EXECUTIVES SOCIETY

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IN THE

Supreme Court of the United States

OCTOBER TERM 1973

No. 73-187

KEWANEE OIL COMPANY,

Plaintiff-Petitioner,

v.

BICRON CORPORATION, ET AL,

Defendants-Respondents.

BRIEF OF AMICUS CURIAE THE LICENSING EXECUTIVES SOCIETY[1]

I.

NATURE AND INTEREST OF THE AMICUS

The Licensing Executives Society, U.S.A., is a professional association of persons intimately involved in licensing of technology and industrial property rights, including trade secrets and know-how.

The Society in the United States is composed of over 900 members, some 60% odd being executives rather than prac-

[1] Letters from the parties consenting to this brief are on file with the Clerk of the Court.

ticing lawyers, some representing large corporations, some representing small companies, some 40% odd being either in-house or private practioners of law, whose work includes a major focus in technology development, practice and law.

The Society in filing this brief, acts through its Board of Trustees on advice of its Committee on Laws.

Inherent in the work of the Society's members is continuing contact with the financing and generation of new technology, with procedures to bring the technology developed to public enjoyment, and with the interrelation between the necessity for technology protection and the ability to obtain financing for its development.

The members of this amicus are persons who buy, sell and direct the protection of billions of dollars worth of technology[2] which is endangered by the decision below.

The decision below purports to destroy in very large measure the assets and licenses which the members of this amicus husband and handle on a continuing day to day basis.

These members, perhaps more so than any other group, are acquainted with the realities of trade secret and know-how law in action.

[2] See discussion in Appendix A hereto.

II.

STATUTES AND TREATIES INVOLVED

State statutes enacted since the 1964 preemption ruling in *Sears* and *Compco*[3] which are protective of trade secrets and are obliterated by the *Kewanee* rule below, include:

Ark. Stat. Ann. §§41-3949 to §§41-3951 (1967)
Cal. Penal Code § 499c (1967)
Colo. Rev. Stat. § 40-5-33 (1969), § 40-5-34 (1967)
Ga. Crim. Code § 26-1809 (1968)
Ill. Rev. Stat. Ch. 38, § 15-1 to 15-9, § 16-1 (1965)
Ind. Code §§ 35-17-3-1 to 35-17-3-5 (1969)
Me. Rev. Stat. Ann. Tit. 17, § 2113 (1967)
Mass. Ann. Laws Ch. 266 §§ 30(4), 60A (1967)
Mich. Compl. Laws §§ 752.771 to 752.773 (1968)
Minn. Stat. Ann. § 609.52 (1967)
Neb. Rev. Stat. Ch. 28, §§ 548.01 to 548.03 (1965)
N.H. Rev. Stat. Ann. Ch. 580, § 32 (1967)
N.J. Stat. Ann. §§ 2A: 119-5.1 to 119-5.5 (1965)
N.M. Stat. Ann. § 40 A-16-23 (1967)
N.Y. Penal Code § 155.00(6), 155.30(3), 165.07 (1967)
N.C. Gen. Stat. § 14-75.1 (1967)
Ohio Rev. Code. Ann. Tit. 13, § 1333.51, 1333.99 (1967)
Okla. Stat. Tit. 21, § 1732 (1968)
Pa. Stat. Tit. 18, § 4899.2 (1965)
Tenn. Code Ann. §§ 21-4238 to 21-4240 (1967)
Wis. Stat. Ann. § 943.205 (1965)

---

[3] Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964); Compco Corp. v. Day-Brite Lighting, Inc. 376 U.S. 234 (1964).

Provisions of the Patent Act, Title 35 U. S. Code, which are involved, include:

§ 101 Inventions patentable.

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

§ 102 Conditions for patentability; novelty and loss of right to patent.

A person shall be entitled to a patent unless —

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

(c) he has abandoned the invention, or

(d) the invention was first patented or caused to be patented by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application filed more than twelve months before the filing of the application in the United States, or

(e) the invention was described in a patent granted on an application for patent by another filed in the

United States before the invention thereof by the applicant for patent, or

(f) he did not himself invent the subject matter sought to be patented, or

(g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. • • •

§ 103 Conditions for patentability; non-obvious subject matter.

A patent may not be obtained th ough the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

• • •

Treaties to which the United States is a party, and which are directly involved, are:

Paris Convention, Act of Lisbon 1958, Art. 10 Bis (2) which recites:

> "Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition?"[— which is prohibited].

The Pan American Convention of 1929, Art 20, reads to the effect:

> "Every act or deed contrary to commercial good faith or to the normal and honorable development of indus-

trial or business activities shall be considered as unfair competition and therefore unjust and prohibited."

The Constitution, Art. I, Sec 8, Clause 8 reads:

"The Congress shall have the power * * * To promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries;"

III.

THE QUESTION DISCUSSED BY THIS AMICUS, LICENSING EXECUTIVES SOCIETY

In *Lear Inc.* v. *Adkins*[4] a three-justice minority wrote that trade secret law had been totally preempted by the patent law — though the issue was not before the court and had not been briefed to the Court. The majority of the Court declined that invitation and invited the lower courts to a "fully focused inquiry" into how far they would go in enforcing contractual obligations of confidence or contracts for royalties.

The Sixth Circuit, in *Kewanee* below, made the invited inquiry and wrote to the effect:

> Policies of the patent law preempt protection of all technology which
>
> (a) has been in commercial use for more than one year, and
>
> (b) is subject matter "appropriate for patent."

Section 101 of the Patent Act, Title 35, defines the *classes* of subject matter appropriate for a patent as broadly as every "new and useful process, machine, manufacture or composition of matter." Within such classes appropriate

[4] 395 U.S. 653 (1969).

for a patent, Section 103 of Title 35 limits the allowance of patents to inventions which were not obvious to persons of ordinary skill in the art even in light of all the sum total of the prior art identified in Section 102. See statutes pp. 4-5 hereof.

Scholars have of course debated whether the *Kewanee* phrase "appropriate for patent" means nonobvious subject matter patentable under 35 U.S.C. § § 102-103 or means all technology within the classes recited in Section 101 as appropriate for patents.

Though the issues of confidential technology and contractual obligations of confidence as to technology were not before the Court nor briefed to the Court in *Goldstein* v. *California*, [5] the 1973 *Goldstein* opinion of this Court refers to the patent law's preemption of law protective of "mechanical configurations" without regard to nonobviousness under 35 U.S.C. § 103, and without regard for whether the configurations had been in use for one year. Thereby *Goldstein* suggests that *Kewanee*, if it be law at all, must be read to preempt as broadly as all applied technology referred to in 35 U.S.C. § 101 (p. 4 hereof) and irrespective of time in use.

Thus the three opinions, *Lear*, *Kewanee* and *Goldstein*, suggest a focus of attention and inquiry upon (a) the existence of any preemption, and (b) if there be preemption the significance of two different issues as to scope of preemption:

(1) the significance of the difference between preemption based on all patentable classes of technology under 35 U.S.C. § 101 irrespective of patentability under Sections 102 and 103, by contrast with pre-

[5] ..... U.S. ....., 93 S. Ct. 2303, 178 U.S.P.Q. 129 (1973).

emption based only on inventions patentable under Sections 102 and 103; and

(2) the significance of the difference between preemption of all such technology of whichever of those definitions, (i) irrespective of time of use, by contrast with (ii) only that technology which has been in use for more than one year.

A. Section 101 v. *Section 102-103 preemption*

It typically costs thousands of dollars and 20 months of time in the Patent Office, and it commonly costs hundreds of thousands of dollars and years of time in the courts, to obtain a determination of whether a given item of Section 101 subject matter is patentable under Sections 102-103.

For single items of invention enjoying a large public market and thus worth millions of dollars, those costs are undesirable but usually tolerable. For multitudinous items of know-how whose value is in their packaged number but wherein each individual item is of much less value, such costs in time and money are **absolutely** intolerable.

The system of research and development economics simply cannot support or afford any approach at know-how protection, by which the proprietor does not know which way or whether his protection lies until after years of time for judicial machinations and thousands of dollars. Technology grows stale and loses significant portions of its value often in months, essentially always within a very few years. Contracts of know-how license must be let, monies paid, monies spent on R & D, and technology *used* for social service, without awaiting such delayed and costly determinations.

Sociologically and economically we must have a system which is essentially self-determinative for the great masses

of the milk of technological advance (contrast the cream covered by patents).

As hereinafter developed it is beyond doubt that when drawing the § 101 lines and the § 102-103 lines, the Congress and the individual authors of the Patent Act did not give one iota of thought to whether those statutory lines would be used for trade secret preemption definition by contrast with right-to-patent definition.

As also developed hereinafter preemption of subject matter potentially patentable under §§ 102-103 is devastating to existing know-how law and practice, and the broader preemption of all § 101 classes of technology is only an order of magnitude more devastating.

For these sociological and economic reasons, coupled with the failure of this Court to find a distinction between preemption of § 102-103 scope and preemption of § 101 scope in any of its opinions in *Sears, Compco, Lear* or *Goldstein,* the further portions of this brief will ignore that distinction as immaterial — trusting that if such nice lines of distinction are to be drawn they will be drawn after the kind of investigation and study for which the legislature is better equipped than the judiciary.

Both scopes of preemption are considered to be at least essentially, for all the purposes of this brief, of equally debilitating socio-economic effect, though admittedly the broader preemption is significantly worse than the more narrow one.

B. One-year-lag preemption

The patent statute's 35 U.S.C. § 102 provides that a patent cannot be obtained on inventions in public use for more than one year, without reciting or intimating anywhere or otherwise advising business men that any other

right is lost after that same year. The authors of the statutory phrase did not have such hidden intent (See below, p. 64).

Moreover, the billions of dollars worth of know-how which is now protected in this country and abroad by contract and tort obligations of trust and confidence, have their biggest value during the few years next following the first year of commercial use. For technology in its first year of use is typically being evolved, tested, debugged, and commercially used relatively little. The blossom of the market peak and full commercial value typically occurs in the few years immediately subsequent to the first year of use.

Thus, speaking in economic orders of magnitude, the rule of preemption of technology in public use for one year is, for most practical purposes, as devastating as the rule of preemption of all unpatented technology.

For socio-economic planning purposes they are one and the same, in spite of the one being larger than the other in strictly arithmetic terms.

Further, *if* there is to be a line drawn by a period of time, one year or two or three or five years, this should be drawn by the legislative process wherein the economic effect of the placement of that line can be determined by economic studies of all types of industries — a study not made by Congress when writing the Patent Act § 102 (b)'s one year cut-off of the right to patent.

Finally, this court's long line of preemption cases (See p. 66-77 below) never mention that the one-year grace period for the filing of a patent also destroyed other important property rights, and the authors of the patent statute deny that intent. (See below, p. 64)

For these sociological, economic and legal reasons, the further portions of this brief will commonly ignore that one-year's-use distinction as immaterial to the issues at hand. For with or without that nice distinction, the socio-economic result is essentially the same — and in all events is a determination for the legislative rather than the judicial function.

C. The Kewanee "New Section" of the Patent Act, Title 35

Employee contracts for the employee-agent to keep the confidence in trust, as it were, are invalidated by the *Kewanee* rule below. That change cuts across many concepts of law, ranging from the law of agency and trusts through the law of restitution, tort and contract.

The *Kewanee* court purported to write a brand new section into Title 35, U.S.C. generally to the effect:

> "Breach of trust and confidence law, agency law, contract and tort law are repealed insofar as they relate to confidential technological information appropriate for patent, one year after commercial use."

The remainder of this brief focuses significantly upon what might be described as the *Goldstein* modification of that, a new section in Title 35 to the net effect:

> "Breach of trust and confidence law, agency law, contract and tort law, are repealed insofar as they relate to confidential technological information."

It is the position of this Amicus that: As a matter of legal construction of law either of those expressions is as unsound as the other; and as a matter of society's socio-economic need they are essentially the same in practical result.

The Restatements of Trusts, Contracts, Agency, Restitution, and Torts all recite law in their areas contrary to *Kewanee.*

IV.

SUMMARY OF THE ARGUMENT

As applied to technology, such a new rule of law as quoted just above, reversing a rule as uniformly accepted as any rule known to the common law, and reversing a rule upon which industry transacts billions of dollars in business annually, is startling.

Its socio-economic impact and legal background command full chapters on each of the following topics, here summarized:

A. The economic significance of the *Kewanee* rule, even with the one year limitation, is in the billions of dollars order of magnitude. It affects a wide variety of contract types entered into daily by the thousands by American business. It sacrifices a billion dollars annually in the nation's balance of international trade. It cuts U.S. industry off from ready access to foreign technology.

B. The *Kewanee* rule, even when limited to prempt only patentable subject matter in use for one year, nevertheless presents a strong bias for all companies who can, to move their research and development operations from the United States to foreign countries where their R & D employees can be trusted to keep the confidence.

C. Obligations of trust and confidence do not give rise to the "monopoly power" commonly attributed to them by Mr. Justice Black and by the *Kewanee* court below.

The trade secret law is limited to prevention of fraudulent-type *derivation* and use of knowledge developed and paid for by others; all the nation's 210 million people and thousands of industries and universities remain free to

develop and use the same knowledge and compete outside any obligation of confidence.

Kewanee Oil's apparent preference for secrecy notwithstanding, it is the experience of this Amicus that whenever competitors find a significant value to exist in know-how, they can be depended upon to develop the same, equivalent or often better know-how on their own quite promptly after the decision that there is enough public need to be served to suggest enough profit to be earned to justify the effort.

In economic reality the restraints of the breach of confidence law, being focused upon the *relationship* rather than the *res,* sponsor vigorous ethical competition rather than restrain it.

D. The *Kewanee* court built its opinion on erroneous premises of fact for which it had no evidence before it, when it said that trade secret protection "would impede the progress of science and the useful arts."

To the contrary, the heretofore uniformly accepted law concerning confidential know-how (including both true secrets and know-how which is largely nonsecret), by which know-how is protected only as between pairs of people with obligations of confidence and trust one to the other, performs an absolutely vital and nationally necessary function in sponsoring the progress of the useful arts — a progress that is needed more now than ever before, needed in this time of expanding society and depleting natural resources and technology balance with the rest of the world.

E. In the list of priorities of public policy, the most important public policy of all is public policy favoring honesty and good faith in personal relationships, including specifically business dealings.

Free and open competition should not be worshipped as the sole true god at whose alter all other social purposs and policy of honesty must be sacrificed; free and open competition by one in breach of trust using technology expensively developed at high risk assumed by another, is contrary to public policy.

F. Treaties to which this nation is a party, establish a federal law of good faith business practice recognized as such by this and other courts.

G. The Sixth Circuit 1973 Trilogy, enforces criminal law public policy against wrongful appropriation of trade secrets (the *Greenwald* case), enforces public policy against wrongful copying of uncopyrighted catalog materials in a contempt context (the *Screw Machine* case), both after *Kewanee* and without a concern for patent or copyright law preemption. Even the Sixth Circuit has already twice recanted its preemption error in *Kewanee*, having recognized that preemption cannot be reconciled with other necessary public policies.

H. Any correct reading of the legislative history of the patent act, is a one hundred per cent contradiction of the preemption theory.

Our nation's constitutional-law history virtually began in *Gibbons* v. *Ogden*,[6] i.e., with a state of New York patent on the steamboat being litigated to the U. S. Supreme Court. Mr. Justice Marshall among others, heard 40 pages of argument on the federal patent law preemption issue, as well as argument that though valid against intrastate commerce the state patent could not be enforced as against interstate commerce. That state patent survived the patent law preemption argument in this Court, to be later litigated again against intrastate commerce.

[6] 22 U.S. 1 (1824).

The Constitution creates no hiatus between what the Congress is empowered to patent, and what is reserved to the states. This court having held the constitutional standard of patentability is high and difficult to obtain, and all other power being reserved to the states, the patent act cannot have preempted protection of constitutionally unpatentable subject matter.

At the time the present patent statute was written, no rule of common law stood more firmly established, more uniformly accepted both in state and federal common, statutory and treaty law; and the authors of the new act affirmatively sought to make **no** controversial changes.

Said one of the present Patent Act's two primary authors:

> "Patent laws function only to keep things out of the public domain temporarily.
>
> "They have nothing to do with putting things into it.
>
> "They say nothing about right to copy or right to use; they speak only in terms of right to exclude."[7]

The Patent Act itself speaks only in terms of § 102, "Whoever invents * * * *may* obtain a patent therefor."—A permissive grant, with no words of punishment or taking from the inventor any rights if he fails to exercise his permitted option to seek a patent. The statutory title of that Section 102 expressly limits its treatment to "Conditions for **patentability**" and "loss of right to a **patent**", no reference being made to loss of any other right. See p. 4 above.

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[7] The Honorable Judge Giles Rich, in *Mine Safety Appliances Co.* v. *Electric Storage Battery Co.*, 405 F2d 901, 902 n 2 (CCPA 1969).

I. There is a U. S. Supreme Court "legislative history" of the doctrine of patent and copyright law preemption, comprising this court's opinion in *Gibbons, Singer, INS, Becher, Kellogg, Scott Paper, Mazar, Sears, Compco, Lear* and *Goldstein.*[8]

Not once in those which found any preemption cases, has there been one issue on or one word of briefing to the Court about fraud, breach of trust or confidence, the economics of technology development and commercialization — for a breach of a personal relationship of trust was not involved in any of those cases.

And as the Sixth Circuit has said since *Kewanee,* in *Screw Machine*[9] where fraud is involved you don't need a copyright [or patent] to protect against wrongful appropriation of another's catalog [or technology].

In fact, the entire preemption doctrine commenced in erroneous dictum in *Singer* and *Kellogg* where the correct *result* was dictated by the trademark law and the court erred in attributing that result to patent law preemption — and the erroneous dictum has grown, as a science fiction monster feeding upon itself might grow, into the error of *Kewanee.*

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[8] Gibbons v. Ogden, 22 U.S. 1 (1824); Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169 (1896); International News Service v. Associated Press, 248 U.S. 215 (1918); Becher v. Countoure Laboratories, Inc. 279 U.S. 388 (1929); Kellogg Co. v. National Biscuit Co., 305 U.S. 111 (1938); Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945); Mazar v. Stein, 347 U.S. 201 (1954); Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964); Compco Corp. v. Day-Brite Lighting Inc., 376 U.S. 234 (1964); Lear Inc. v. Adkins, 395 U.S. 653 (1969); Goldstein v. California ..... U.S. ....., 93 S. Ct. 2303, 178 U.S.P.Q. 129 (1973).

[9] Screw Machine Tool Company v. Slater Tool and Engineering Corporation, 480 F.2d 1042, 178 U.S.P.Q. 325 (6th Cir. June 15, 1973).

The correct unfair competition law (including the law of unfair appropriation of trade secrets) is the proper basis for effecting the socially desirable results of *Singer, Kellogg,* etc., rather than a bull-in-china closet doctrine of patent-copyright law preemption by which unfair competition law in gross is rendered a nullity without any chance at discriminating consideration and refinement of it on its merits.

J. As this court itself has often written, there are issues as to which the legislative process is the only governmentally acceptable process for the change of the law.

When uniformly accepted law has been the basis for billions of dollars in economic investment and literally hundreds of thousands of contracts, as is the case here, and when the Court has no access to hard economic data upon which to base sound conclusions on the domestic and international effect of a sudden change in the law, inherently in this situation any change in the law must be left to the legislative processes.

K. Sociologically and legally, the starting point is a common law right to copy and use that which you can learn of honestly.

To that general rule of free and open use of what one knows, are various exceptions, various rights to exclude based upon the social purposes of personal property, of trademarks, of copyrights, of trade secrets, of patent rights, even rights to exclude your neighbor from maintaining a public nuisance or polluting the air with his duly patented invention.

The nature of the various intellectual property law exceptions to the general right of free and open use of what

one knows, i.e., the nature of the various rights-to-exclude, is that each exception-right-to-exclude stands in the light of its own social purpose, each casting its own shadow of its own scope, shape, premises and term — shadows of social purpose which may overlap in part but which do not fight, shadows which permit one right-to-exclude to begin and end in response to *its own* social purpose, not affecting or preempting the social purposes which gave rise to the other shadows of rights to exclude.

VI. Conclusion: The Sixth Circuit rule in *Kewanee* must be reversed.

Preemption law has never been applied by this Court to breach of trust and confidence situations, and it must be limited so as never again to be thought of as possibly applicable to breach of trust and confidence issues.

Further, the long term correct solution to the entire intellectual property complex involves a federal or uniform unfair competition law correctly refined with its own limits, with none of the intellectual property law of patents or copyrights held to preempt any socially proper unfair competition law.

—And that is within the proper legal power of this Court, for example, under the Pan American Convention (p. 45-46 *infra*) if not by way of partial modification of *Erie* v. *Tompkins*.[10]

[10] Erie Railroad Co. v. Tompkins, 304 U.S. 64 (1938).

V.

ARGUMENT

A. Contract Values and Types Invalidated by Kewanee

Common contract forms in widespread use in industry which are essentially devastated by the rule of patent law preemption of contracts, include these:

(1) The contract for R & D

Companies commonly contract, perhaps at the hundred-million-a-year rate in the aggregate, for outside R & D work by independent or university labs. A typical contract, shall we say for research into how to grow large crystals, might read:

> "Company shall pay $500,000 for R & D by lab. Lab shall disclose the results of R & D to Company. Neither Lab nor its employees shall disclose the results Company paid for to competitors or use the results competitively for ten years."

By the preemption rule that last clause is a nullity. The Lab's employees are free one year after a commercially important idea is placed in use, to use the information in a commercial frolic of their own. If the Lab's employees can do that, indeed the Lab itself after a year's use can disclose the results to competitors perhaps for a little cash, or can set up a subsidiary to compete with the customer for whom it did the work.

Query: Who could afford to contract for outside R & D in the United States, if the cream of the results are open for free appropriation by the Lab's employees and/or the Lab and/or competitors learning from either of them, within one year? If R & D buyers cannot buy in the U.S., what

happens to all the nation's companies who do R & D work on contract? What then happens to the progress of technology?

(2) Supply contracts.

Supply contracts for manufacture by a supply contractor, with proprietary know-how of the buyer, are entered into regularly in our society, perhaps at the rate of tens-of-millions a year. Example:

Company in its own R & D work develops a process for making carbon black which uses a unique new autoclave reactor with toroidal flowing gases. The reactor developed in the R & D is proven-out by a year's pilot commercial operation. Company now wants to equip all its plants with the new autoclave reactor. Since Company is in the carbon black business with no facilities or know-how for economic autoclave reactor manufacture, it costs Company $50,000 to make a reactor of uncertain life; but Supply Contractor which is in the autoclave reactor manufacture business and is set up for that kind of work can make and guarantee them at $35,000 each — provided it is given the secret process-specifications Company has developed. The contract typically takes the form:

> "Company discloses detailed process-specification for new secret reactor to Supply Contractor. Supply Contractor agrees to make 150 reactors at the rate of one per week, at $35,000 each pursuant to Company's specifications. Supply Contractor agrees to keep the specifications secret and to require that its employees keep the specifications secret and not use any of the disclosed specifications for their own or another's account."

But under the *Kewanee* rule Supply Contractor's employees cannot be bound by the last sentence of the contract. Nor can Supply Contractor.

Under the preemption rule everybody must inevitably avoid as the plague any supply contract for proprietary type equipment designs, lest the act of contracting effect a publication of the secret specs to all competitors.

Thousands of small businesses which live in major part on supply and similar subcontracts must inevitably be severely hurt.

(3) The subcontract

The subcontract by which a major contractor subcontracts out the manufacture of major subassemblies and parts is a special form of supply contract which is entered into regularly in our society, perhaps at the rate of millions a year in addition to other forms of supply contracts.

The preemption rule does the same sort of gross injury to current industry subcontract practice as to supply contract practice, above described.

—With resulting injury to the entire economy and most particularly to the smaller subcontractors whose primary business involves designs proprietary to general contractors for jet engines, commercial aircraft, buses, etc.

(4) The employee contract.

For the reasons inherent in what has been outlined above, hundreds of thousands of engineering and R & D employees are bound by existing contracts with thousands of employers, not to disclose their employer's trade secret to others. The assets so protected are multi-billion dollar values.[11]

By the square holding in *Kewanee* those obligations of confidence are void as to technology in use for a year.

A very important point inherent in this result which was not acknowledged by the *Kewanee* court: The *Kewanee* rule not only opens the door, it affirmatively invites disruptive raiding of key employees of competitors on a regular, planned basis.

How much such raiding will in fact occur is a speculation for the future time when, if ever, the *Kewanee* rule becomes accepted law; how debilitating that raiding will be to business is necessarily also conjectural. But clearly, business can not well and efficiently serve society's needs for goods and services and progress in the arts if there is massive employee raiding and no employee stability among those who do the big R & D projects.

Another point: Many businesses now encourage their employees to learn all they can about the technology of the product line, believing that the salesman is a better salesman if he knows, the vice president is a better vice president if he knows; the service man is a better service man if he knows, etc. But every raidable employee is a potential leak. If none of them can be trusted to keep the secrets, then businesses must bias their internal practices toward insulating all employees from knowledge he does not have a direct important need to know — with resulting loss of efficiency throughout the enterprise, with loss of the values of cross-fertilization of thought among technologists, etc.

(5) The know-how license contract.

Technology within the *Kewanee* rule is a commodity bought and sold in the market place primarily by the device

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[11] See Appendix A.

of the know-how license.[12]

The total payments for know-how licenses run in the millions-a-day, billions-a-year orders of magnitude.[13]

A strangely little known but certain truth is that in terms of actual de facto selling market activity, there is almost de minimis active market for patents as such but there is a big and quite active market for know-how technology packages both with and without patents as significant parts thereof.

Individual licenses for chemical processes and plants therefor have in the decade of the 60's gone at prices quite often in the multi-million dollar range.[14]

But under the *Kewanee* rule, to offer to sell your know-how at an appropriate price, is an invitation to your

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[12] Here note that the bulk of the value in know-how licenses commonly is not in concept, truly "secret" information.

For example, all the essential elements for the manufacture of polyethylene, carbon black and many other chemicals, are now published in the literature including patents. But the wheat elements of information are relatively few and are scattered among and lost in a mountainous haystack of chaff information.

In the haystack of mankind's technological knowledge-that-is-an-impossible-data-retrieval-problem, the publicly available items of knowledge are not evaluated *as against* the hundreds of alternative suggestions also available. The reading of an item of information in a publication does not give the reader the kind of value judgment that experience in use of the item in several contexts and various parameters gives. The essence of know-how is the experience-value-judgment added onto the otherwise sterile knowledge of the concept, the result of a process of distillation of compatible and efficient parameters and assemblage of them into a package of known utility, the individual elements of which are not really secret.

[13] See Appendix A.

[14] See, for example, *Imperial Chemical Industries, Inc.* v. *National Distillers and Chem. Corp.*, 342 F.2d 737 at 744 (2nd Cir. 1965) where Toyo of Japan had agreed to pay about $6,000,000 for information on how to build a polyethylene reactor.

offeree to come raid for key technical employees, thereby to get for a couple of $25,000 bonuses to the key employees what otherwise would cost perchance several hundred thousands or millions in a know-how license.

Under the *Kewanee* rule know-how licenses can never again be offered freely in the market, can not move in the market place at prices commensurate with the value of the know-how.

The foundation stone of all economics, that you cannot get something for nothing, tells us that if the know-how cannot be sold for its value, the incentive to produce it must deteriorate, the commitment of capital to R & D must diminish, the progress of the arts must decline.

(6) Access to foreign technology.

United States now pays sums approaching the order of one hundred million dollars a year for foreign technology within the *Kewanee* rule.

But a foreign owner now knows that if he licenses a U.S. licensee, the employees of the U.S. licensee cannot be bound to honor the obligation of confidence — nor can the U.S. licensee be held accountable.

For a German company to license, shall we say, ABC Steel Company in the know-how for manufacture of unique electric steel alloys, is to have a Japanese, French, British and five other U.S. companies all raid ABC's key employee group as fast as they learn, thereby to compromise essentially the entirety of the German licensor's know-how. *Kewanee* forces the German company to refuse to license U.S. buyers of technology.

Moreover: The raiding by the several of the employees of the one licensee, ABC, may conceivably be faster than the ABC's employees' learning rate. So ABC may never get effective operating knowledge of what it paid for, even if it could get the license.

The *Kewanee* rule is thus seen severely to deter access to foreign technology by U.S. industry.

(7) Know-how sale to foreign purchasers, and our balance of payments deficit.

United States industry now receives payments approaching roughly the order of magnitude of a billion per year, from foreign buyers of U.S. technology within the *Kewanee* rule.

At a time when the U.S. balance of payments deficit is buffeting the dollar and the entire economy of our nation, a billion dollar annual foreign credit from this source is of no small importance to the nation's capacity for economic competition with the family of nations. Most of this money, coming as it does from technology sales, is directly returned to new technology development.

But under *Kewanee* the potential foreign licensee can pay a few $25,000 bonuses to key employees, set them up in Cleveland or Cincinnati teaching what they know, and get much of the same know-how they now pay hundreds of thousands and millions for.

The *Kewanee* rule would be a significant blow to the national effort to maintain a favorable international balance of payments.

So far as appears, the court in *Kewanee* gave no consideration to any of the factors above, except the specific issue of employer-employee contract.

When the meaning of a phrase actually written in a statute is being interpreted, disregard of the economic impact of the construction may perhaps be justified.

But when as here a court is writing into the Patent Act a wholly new provision not in the statute, it behooves the lawmaker to hear evidence on and consider the economic impact of the new section it writes into the Act for the Congress.

B. The Kewanee Bias for Business to Move In-house R & D to Foreign Countries

Perhaps more significant, is the *Kewanee* rule's long term bias against doing even in-house research and development work in the United States when it can be done in a foreign country.

Patents, of course, cannot now be depended upon validly to protect other than the creme-de-la-creme of the results of major research and development budgets Society lives off the milk product of capital investment in research and development which is outside reliable patent protection.

Knowing that the results of major-project research and development needs legal protection, will not corporations be biased by the *Kewanee* rule to move all the research and development they feasibly can from United States laboratories of their own to foreign laboratories with resultant loss of that technology from the United States and its labor force?

While we can debate the degree of severity of this debilitating bias that the preemption rule produces, it can hardly be questioned that it is at least severe — and necessarily in critical need of careful evaluation before such a preemption rule as would create such a bias is rigidified into law.

C. The Legal Theory of Trade Secrets

1. *The historical philosophy of trade secret law*: *the* relationship, *not the* res.

The trade secret law seems to have grown naturally out of tort, trusts, agency, property and contract philosophy and social purpose. Until very recently no one ever questioned its social propriety based on a sort of writer's-choice of any one or more of these several grounds.

If it cost $500,000 to engineer into a working process, the concepts of which were already disclosed in patent, trade journals and college texts, it was natural to property law concept that the party who spent the $500,000 should own the technology it paid for.

If an employee were entrusted with his employer's confidential business information, it was natural to the law of trusts and to the tort and agency law concepts that he be obligated not to breach the trust, the obligation of confidence.

If the information were licensed by contract to another company, so that it could avoid the risk of R & D failure, the time required for major developments, and the inevitable cost overruns, it was natural to the freedom of contract concept that the contract be honored. No evil was seen in a contract, "I'll pay X dollars for your secret and I won't tell anyone what it is."

Although trade secret protection is vital to proper sponsorship of progress of the useful arts,[15] none of these social purposes out of which trade secret protection arose are quite the same as the copyright or patent social purpose to induce progress in knowledge and the useful arts. None of these socio-legal purposes had to do with trade or competition except as possibly happy incidents. They had to do with property and good faith and ethics and equity.

None of the socio-legal concepts had a time-factor in them and no time factor is found expressed in the law (contrast the facts) of trade secrets. Thus, in *U. S.* v. *Dubilier* the Supreme Court said at p. 186:

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[15] See Chapter D, p. 35 hereof.

> "He [the inventor] may keep his invention secret and *reap its fruits indefinitely*" (Emphasis added)

As a parrot speaks without thought or comprehension of his meaning, so some have translated the lack of time factor in trade secret law into an allegation that if a trade secret has no time limit, it is in some way equivalent to a perpetual patent or to a monopoly, or that a trade secret "extends" the life of a patent. Nothing could be further from the truth.

The foundation stone of all trade secret *remedies* is a relationship between two parties, a disclosor and a disclosee — an obligation of confidence between a disclosor and disclosee. In the most famous of United States Supreme Court trade secret cases, Mr. Justice Holmes reminded us:

> "The word "property" as applied to • • • trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. • • • The property may be denied but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that defendant stood in confidential relationships with the plaintiffs," *DuPont* v. *Masland*, 244 U.S. 100 (1917).

In trade secret law the *relationship*, not the *res*, is the thing.

Thus the remedy in trade secret law does not control the technology, only the processes of derivation of the technology. It keeps the disclosee ethical. It keeps the know-how acquisitions both ethical and consistent with the inescapable hard realities of R & D economics in

action, that he who pays must have a right to control and market what he paid for, else he soon can no longer pay for R & D. But R & D is open for all to enter.

2. Trade Secret Law leaves others free to compete

The trade secret social purposes do not prevent others from using public sources of information, do not prevent others from developing the same new technology themselves and using it and also selling and licensing it. Frequently a number of companies are competitive bidders to license their technology for manufacture of the same product.

As to each individual secret the obligation is commonly only of one or two people (disclosees), or four. Of hundreds of reported cases reviewed none has been noted to involve as many as 10 disclosees (though some know-how packages are licensed to many buyers whose total informed employee group must sometimes exceed ten persons). The remaining 210 million Americans and all billion or so foreigners remain free to develop, use and publish the same concept.

This of course is not to say there are millions or billions of de facto potential competitors. Those people here and abroad have organized thousands of industrial businesses. By virtue of interest background, capital structure and geography, the number of for-real potential competitors may be only a dozen in some areas of technology. But both domestic and foreign businesses are dynamic, not sterile or static. They continuously search for and find areas of public need that can be served for profit.

For social planning purposes they can be depended upon to leave no significant public need, long unserved. — Not if the need is important enough for a buck to be made in serving it.

Kewanee oil's alleged interest in perpetual secrecy not-

withstanding, this is a key and undeniable point in the picture; essentially every manufacturer assumes and knows in today's high paced world that *if his secret process or manufacturing jig is worth competitive pursuit,* his competitors will find it, or its equivalent, or its improvement, in a very few months or years. — Like two, four or ten months for any individual secret. Even for whole chemical-plant-process and related plant equipment, two, four or six years almost at the outside, and for all practical business planning purposes, essentially never longer than eight years. (Long term know-how licenses most commonly have continuing R & D service features).

The fact that Kewanee Oil's Harshaw division is reported to have *sought* a longer term secrecy and exclusivity, does not change the fact that if the public had enough interest in it to justify competitive efforts, Kewanee Oil would not likely have in fact enjoyed long term exclusivity of its know-how. Moreover, even if Kewanee Oil's large-size crystal growth could have been an isolated freak of a situation where long term exclusivity might have existed, the entire public policy dog must not be permitted to be wagged by a diminutive tail. For without question, in essentially all situations competitors do develop, and can be depended upon to develop, the same, equivalent or better know-how in short order once the commercial market value in so doing is present. — And until that commercial market value is present there is no significant public disservice in permitting the secret to be kept from a public that has no need or interest anyway.

So, de facto, trade secret protection is not only uncertain in time, it is also short termed in time of protection in all but a de minimis number of cases involving surely less than one-tenth of one percent of technology value. It is essentially never monopoly power even for a few years.

Public policy must be based upon the typical and common situation, not the rare atypical situation.

And as to products which are placed on the market and are available for competitive purchase and reverse engineering, the competitive access is often almost instant and always pretty quick.

3. Trade secrets an extension of the patent "monopoly"[17] Or, patents an extension of the trade secret nonmonopoly.

It was apparent even before Galileo's day that men would not for long, yea could not for long, put their mind to making contrivances for the benefit of realm, if the results of their investment were not to be *better* protected

[17] We use the phrase "patent monopoly" because Mr. Justice Black in *Lear* and the *Kewanee* court did; but this is not correct in pragmatic reality. When theorizing on public policy, there is much mischief in thinking of patents as being more monopolistic than they really are.

A patent by legal definition covers only things not before known or used, nor to those skilled in the art obvious from all that was before known or used. Hence, it takes nothing from the existing public enjoyment.

A patent, working in that context, only rarely monopolizes a relevant market. Bulova's patent on its Accutron tuning fork watch movement has great commercial value, but more non-Accutron than Accutron movements are still sold and Accutron movements must remain more price competitive than not. Polaroid's patents on instant snapshots are of great value; but more noninstant than instant pictures are still taken and Polaroid cameras remain more price competitive than not, with German, Japanese and other United States manufacturers. Xerox by its tremendously dramatic improvement in the cost/quality ratio over heavy-paper photostatic negatives and fragile heat-process Thermofax copies, enlarged the office copy market many many fold; but it seems an absolutely sure bet that there are now many more nonXerox machine copies made annually than were ever made by all the industry before Xerox so served the world with its lower cost, better copy.

Patents are not "monopolies" because the things they cover remain subject to competition from what the public used before as well as what competitors invent anew to stay abreast.

than secrecy permitted.[18] The intent of patent law in the 15th century, as in our Constitution, clearly was not to confiscate men's conceptions, was not to take away the personal property right of a man to keep his secret. Rather, it was to "secure" in him some rights *beyond* what his secrecy would normally afford him — for "securing" the otherwise uncertain protection of secrecy would promote the progress of the useful arts.

The patent grant authorized by Title 35 United States Code is an effort at that.

Instead of the uncertain protection time of zero, two, four or six years which secrecy affords only in an erratic pattern of *some* instances, the patent grant is affirmative for 17 years for only the important inventions that qualify for patents, irrespective of secrecy. Instead of a trade secret right against the one to perhaps six disclosees with the rest of the entire world's people in thousands of universities and industrial businesses free to develop and use independently, the patent right is against the 210 million people in thousands of businesses in our nation and also against all foreigners who would practice the invention in our nation (and foreign industry is very active in our nation).

The trade secret never inhibits the dozens to thousands of actual or potential businesses in their use of any merely *alleged* secret which is in fact publicly available, nor restricts competition in things already in the general public enjoyment, for there is no confidence to be breached if the public has general access to the alleged "secret". The true trade secret is thereby inherently concerned with new things and processes in the course of being brought into the public enjoyment, and mightily *contributes* to competition at this vital threshold, the threshold of new technology.

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[18] See Chapter H and the text related to note 32 infra.

The trade secret is thus seen to be not de facto a monopoly right. For it, its equivalent or its improvement is too available to too many potential competitors, whenever it is valuable enough to justify their effort. The more the commercial value, the quicker the competitor can be trusted to develop the same thing or take a license.

The trade secret is not monopoly oriented. It is good faith ethics and equity oriented.

D. Trade Secret Protection Is at Least as Important to the Progress of the Useful Arts as are Patents.

The court in *Kewanee* quoted with approval writings on the alleged mischief of trade secret protection and wrote always consistently with an erroneous premise of fact that: Trade secret protection is inconsistent with progress of the useful arts and patents are the only inducement to such progress.

The court had no evidence on such a fact finding before it, no testimony of business men who budget R & D or buy or sell its resulting know-how, no testimony from technology economists. The court was indulging what Mr. Justice Frankfurter called "sterile generalization, unnourished by the realities of law in action."

It seems a possibly interesting exercise to indulge some theorizing of our own by way of contrast. —Theorizing based upon the practical day to day experience of this amicus, in the arena where the action is.

• • •

Patent validity is determined by an unrealistic and harsh standard. Valid patents are limited to inventions which by judicial hindsight are held to have been nonobvious in light of carefully selected and juxtaposed portions of all the sum total of mankind's prior published knowledge. The selection and juxtaposition of the few items of prior art from the millions of prior items of knowledge is accomplished by use of the invention itself as the screening tool which separates out and arranges together perchance three needles of compatible knowledge from a mountain-sized haystack of chaff prior knowledge.

Three or four prior art ideas, scattered among all man-

kind's prior relevant and irrelevant knowledge, often do not jump forth together as compatible for a new inventive function. But a patent infringing plagiarist will take invention parts disclosed in the patent itself, and search for thousands of dollars worth of time to find and select those particular kernels of wheat information and screen out all the chaff information. Then when defense counsel puts them into physical juxtaposition before the judge, explaining just how they can be fit together, those same three or four prior art references then *appear* in that *hindsight* review to have been obvious to select and obvious to combine. When the defense counsel concludes his pitch, no judge can really separate himself from hindsight psychology and put himself into the art with the men who worked there as of a many years' earlier time.

By contrast the foresight-developer, upon whom society inherently relies to progress the useful arts, cannot ever really know and have mental mastery over all possible relevant prior knowledge ("prior useful art"). Yet he inevitably does have knowledge of tremendous masses of chaff art and little to guide him as to which of the items of art are the technically feasible items or whether if technically feasible they may be commercially economic to combine in his particular application.

So the foresight developer must spend many R & D dollars trying to select the useful needles he may not know of and may not believe are there, from the haystack of chaff art he does know of or have library access to, often without faith that an answer exists anywhere, without benefit of the patent infringer's certain knowledge that the answer both does exist and is economic, and without benefit of a screen for separation of useful from chaff knowledge.

Thus, inventions which are hard and expensive to make

and develop are by the nature of the patent law quite commonly not protectable by that law.

These unprotectable inventions are the milk upon which society's technology lives. The patentable inventions, the cream inventions, are used to make frosting on an R & D budget or to reduce losses being suffered by an R & D budget. They are very important. But they are worth much too little to support all the economic requirements of new technology which includes many many more expensive failures than valuable successes.

* * *

Another point clearly misunderstood by the *Kewanee* court is this: Patents by their nature cannot and do not disclose all new technology; the patent is not a carrot that *can* fetch public disclosure of the mass of technology within 35 U.S.C. § 101.

The manufacturing specifications for each application of a patented concept may represent hundreds of thousands or millions of dollars' worth of engineering time[19] — distilled and developed know-how that others could develop from patent and text book disclosures but only at a similar cost in market lead time and money.

This engineering detail is commonly developed again and again for each new application of the invention's concept, long after the patent application is filed, long after the patent issues, even after it expires. For example, the hydroelectric turbine applications engineering might be developed before the application for patent on the turbine concept is filed; and a steam turbine applications engineering might be developed while the patent application is pending; and the jet engine applications engineering might

[19] Many developments (e.g. see note 21 infra) cost hundreds of millions of dollars.

be done not by the patentee but by a patent-licensed competitor five years after the patent issues and again by yet a foreign competitor selling a much larger model in the U.S. five years after the patent expires.

Inherently, a patent can not disclose the engineering detail for all applications of the inventive concept — no ten buildings in Washington would hold all the paper even if it existed at application filing time which it does not. Consistently with those pragmatic facts of life the patent statute requires only a disclosure sufficient to permit others skilled in the art to carry out the basic concept. The patent statute requires a disclosure of the concept of *one* mode, i.e.,

> "the best mode contemplated by the inventor of carrying out his invention" [inherently, at application filing time]. 35 U.S.C. § 112.

Other modes including the engineering details of such other modes, *by statute* need not be disclosed in the patent. Many of them simply *cannot* be. The patent law does not purport to protect the engineering detail, the specifications producible by a number of engineers skilled in the art once the concept is in hand. The patent law does not treat this know-how at all, one way or the other.

There can be no "conflict" with the patent law's treatment of trade secret know-how, if the patent law does not treat of it at all, one way or the other.

* * *

A made-up but real-life example will make understandable the point that know-how protection by trade secret law, independent of patent law, is vital to progress.

Assume a 1968 reality that the broad concepts of internal combustion turbine design are available to industry either

from history at no significant cost, from the subsidized academic community again at no significant cost, or from prior government research, again at no significant cost. The concept was disclosed in patents in the thirties and had been successfully applied to military aircraft in the forties.

Project: Design a 1973-generation jet engine for the Lockheed air bus. It must meet new high performance specifications as to thrust, speed, fuel consumption, air pollution, noise, light weight, flexible controls, serviceability, service life, manufacturing ease and cost — on all of which the know-how is confidently and publicly stated to be "available."

Even with the then generation of Pratt and Whitney and General Electric and prior Rolls Royce jet engines, used both on U. S. and foreign commercial and military aircraft, from which to draw such ideas as are available on the open market, essentially that very project, above outlined, proved so expensive in time (years) and money (hundreds of millions of dollars),[21] as to bankrupt one big jet-engine-experienced company, Rolls Royce, and contribute to Lockheed's having to ask the U. S. government to bail it out.

The choice of details of dimension of a thousand parts, temperatures of operation, choice of metallurgy, speed of rotation and centrifugal force on blades, pressure on gas and air to burn how fast — the distillation of a million "obvious" details into a compatible package of engine and related manufacturing know-how that progressed the useful arts, has to be paid for by somebody or society will not enjoy the progress this new bigger, better engine affords.

From the advancement of the art point of view and from the economic point of view, no one could care less whether

[21] United Aircraft's *Daily Newsletter Supplement*, July 18, 1973 reports the development cost of Pratt and Whitney's JT9D for Boeing 747s and DC-10s as "half a billion dollars."

the requisite protection is by private self-help (e.g. secrecy) or by government grant (e.g. patent) so long as the protection is feasible to the inherent facts of public enjoyment of the fruits of the technology and is effective enough to permit recovery of the investment and the profit thereon which is necessary to induce the investment.

Assume a not-unlikely fact, that Pratt and Whitney had already done most of the half billion dollars' worth[22] of work to produce an engine at least 90% as good as the new Rolls Royce engine and has been using it for a year in making engines for, perchance, Boeing 747's. Would society be served by permitting Rolls Royce to hire a dozen Pratt and Whitney select top engineers and use all their know-how?

With much of the development cost and time saved, Rolls would have been saved from bankruptcy and would be able to sell its engines earlier and perhaps 20% cheaper which clearly would serve the public with cheaper air travel — and which would likely bankrupt Pratt and Whitney because then it would either (a) lose its sales to Rolls Royce and fail to recover its tremendous development costs, or (b) cut its price to get business, by roughly the amount of the development cost that its competitor did not pay for, and thereby fail to recover its development costs.

— Which must mean that next time the money won't be available to commit to the development.

—Which must mean stagnation of the advance in the art.

Examples of society's need for patent protection are skipped here, for they are not the point of this paper; but by this example, of which many abound, it is seen that patents are not the sole answer to industry's need for

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[22] Id. See footnote 21.

technology protection in situations wherein protection of unpatented know-how may be vital.

Overall, the R & D dollar, on which the nation is critically dependent for the advances necessary to maintenance of its standard of living in a growing society with diminishing resources, cannot be supported by either trade secret or patent protection alone.

• • •

The trade secret protection is limited by such factors as:

The trade secret is limited to the few people involved in the disclosor-disclosee relationship;

Billions of people domestic and foreign, college professors and university doctorate candidates, dozens, hundreds or thousands of businesses, are free to develop and use and/or publish the same thing and improvements thereon;

There is a high dependability of timely competitive development of any secrets which are commercially important enough to justify the effort;

Trade secret subject matter is limited primarily to things not disclosed by the marketed product but rather practiced in-house;

Know-how licenses on the really big developments are commonly available;

— These and other factors limit trade secret protection at its worst to an inherently minor restraint on competition, nowhere near a monopoly.— Most commonly as minor as a pitcher of water taken from the swimming pool of competition.

The minor restraint, if any, is to be balanced against public policies favoring the right of personal property (which trade secrets assuredly are), the right of privacy

(should proprietors be forced to cough up their secrets to competitors after one year?), the social need for business ethics and business's capacity to en*trust* a confidence to a business associate, and the need for business men to be able to enter into license contracts, R & D contracts and supply and subcontracts for manufacture with proprietary know-how.

* * *

The patent law, as to important conceptual innovations is a needed statutory extension (both as to what otherwise would be secrets and also as to nonsecret inventions of patentable stature) of the common law trade secret right to protect secrets; this needed extension of trade secret protection is not a derogation of it.

Trade secret and patent law are like two horses hitched to the same public-interest-carriage — public interest in competition in innovation, in competition in R & D, in competition in bringing to public enjoyment things which are not yet there. No pursuit of competition in the static group of things already here can properly be set above the carriage of public interest in innovative new technology.

Trade secret and patent protection are both as necessary and as compatible as the two wheels of a bicycle, without which vitally needed technology progress cannot ride.

Nevertheless, arising out of different socio-legal philosophy they also are as different as a car and jet airplane which, while both providing transportation, are in no meaningful way equivalent, not in scope, not in persons affected, not in effective term, not in power of competitive restraint. And neither of them in the usual situation are anything near "monopoly."

E. Public Policy Favors Honesty and Loyalty

Except for a citation of two prior decisions which sustained breach of confidence causes, the *Kewanee* opinion gives no reference to the concept of trust, honesty or loyalty of employees to their employer, no mention of ethical wrong involved in a business reaping where it did not sow.

What ever happened to the morality of our forebears? Is there no social merit to such expressions as "A man's word is his bond." Has society no use for the concept of "trust," by which one man may entrust a confidence to another — and depend upon it?

What moral justification exists for A taking the value that B paid to create? What equity?

The *Kewanee* opinion encourages and sponsors the taking by indirection (by employment of the memory of another's employee) of the same technology value that by the *Kewanee* court, the Sixth Circuit, is still labeled as a crime called "theft," if taken by the direction of the employee's taking documents with the same secret processes written thereon.[23] Theft by any other name remains the same moral wrong. The possible existence of a federal criminal remedy under 18 U.S.C. § 2314 for secrets sold in interstate commerce is no substitute for a civil remedy for the party wronged.

Surely there must be a social policy favoring loyalty among friends, associates and employees, favoring an esprit de corps and morale by which employees serve their

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[23] U.S. v. Greenwald, 479 F.2d 320 (6th Cir. June 1, 1973), cert. denied ..... U.S. ..... (1973) held an attempt by a former employee to sell trade secrets, violated the federal criminal law 18 U.S.C. § 2314 proscribing transportation of "goods, wares and merchandise" in interstate commerce knowing them to have been "stolen, converted or taken by fraud."

employer with their heart as well as their hours. For business efficiency and hence capacity is importantly related to the loyalty and employee esprit de corps. If all the heart is taken from business relationships by law which sponsors disloyalty, the business community will assuredly cease to be able to serve society well.

All will recall the memory expert spy of the World War II movies who got jobs in U.S. plants, memorized data and disclosed it to the enemy. The *Kewanee* rule sponsors that spy-by-memory practice, as between domestic competitors and also by a foreign competitor seeking U.S. technology.

It is morally repugnant for spying to be sponsored by law.

When so many are free to compete, is freeing the competition of those very few who are disclosees sufficiently important to justify debilitation of honor, integrity, loyalty, and the property-like concept that he who foots the bill for producing technology should own the product to the extent of freedom against tortious breach of trust?

In the list of priorities of public policy the highest priority surely must be given to honesty and good faith in business dealings.

F. Treaty Law Compels Good Faith Business Activity

The Paris Convention and the Pan American Convention,[24] both treaties to which this nation is a party, proscribe acts "contrary to honest practices in industrial and commercial matters" and acts "contrary to commercial good faith or to the * * * honorable development of industrial or business activities."

The Supreme Court in *Bacardi* v. *Domenech* wrote:

> "This treaty [Pan American Convention of 1929] on ratification became a part of our law. No special legislation in the United States was necessary to make it effective."[25]

The Paris Convention has been repetitively held in the 9th Circuit[26] to be implemented in the Lanham Trademark Act of 1946, 15 U.S.C. § 1051 et seq. particularly Section 44(h) of the Act, 15 U.S.C. § 1126h. Other circuits take a contrary view.[27]

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[24] Paris Convention, Act of Lisbon 1958, Art. 10 Bis (2) recites "Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition." [which is prohibited]. Pan American Convention of 1929, Art. 20, reads to the effect, "Every act or deed contrary to commercial good faith or to the normal and honorable development of industrial or business activities shall be considered as unfair competition and therefore unjust and prohibited."

[25] *Bacardi Corp.* v. *Domenech*, 311 U.S. 150, 161, 61 S. Ct. 219 (1940).

[26] *Stauffer et al* v. *Exley*, 184 F.2d 962 (9th Cir. 1950); *Pagliero* v. *Wallace China Co.*, 198 F.2d 339 (9th Cir. 1952); *Neal* v. *Thomas Organ Co.*, 325 F.2d 978 (9th Cir. 1963) cert. den. 379 U.S. 828 (1964); *Audio Fidelity Inc.* v. *High Fidelity Recordings, Inc.*, 283 F.2d 551 (9th Cir. 1960); *Magna Pictures Corp.* v. *Paramount Pictures Corp.*, 265 F. Supp. 144 (C.D. Calif. 1967); *Ross-Whitney Corp.* v. *Smith Kline & French Laboratories*, 207 F.2d 190 (9th Cir. 1953).

[27] *L'Aiglon Apparel* v. *Lana Lubell*, 214 F.2d 649 (3rd Cir. 1954); *Royal Lace Paper Works, Inc.* v. *Pest-Guard Products, Inc.*, 240 F.2d 814 (5th Cir. 1957); *American Auto Assn.* v. *Spiegel*, 205 F.2d 771 (2nd Cir. 1953), cert. den. 346 U.S. 887; *Maternally Yours* v. *Your Maternity Shop, Inc.*, 234 F.2d 538 (2nd Cir. 1956); *Kaz Mfg. Co.* v. *Cheseborough-Ponds, Inc.*, 317 F.2d 679 (2nd Cir. 1963).

But *Bacardi* has not been overruled on the point that the Pan American Convention is self-implementing. Hence, either way you figure the point of whether the Lanham Act implements the Paris Convention, there would appear to be treaty law of the land, a federal law not preempted by patent law, which condemns breaches of confidence as surely as the state law of trade secrets.

And the treaties, both ratified by the Senate, reflect a Congressional attitude inconsistent with judicial disregard of "good faith dealings" in business and industry.

G. Criminal Public Policy v. Civil Public Policy

The Sixth Circuit Trilogy of Kewanee, Greenwald and Screw Machine

In May and June, 1973, the Sixth Circuit decided three cases we may here call the Sixth Circuit Trilogy, *Kewanee, Greenwald* and *Screw Machine*, in that order. *Greenwald* and *Screw Machine* clearly demonstrate social and legal inconsistency with *Kewanee* and teach what the law *ought* to be.

Kewanee was first. In *Kewanee* the Sixth Circuit (erroneously) announced in July 1973, a broad patent law preemption of state civil unfair competition law designed to foster commercial honor and good faith in technology dealings. There has been no comparable body of federal civil-remedy law since *Erie* v. *Tompkins*.[28]

In *U.S.* v *Greenwald*,[29] the Sixth Circuit affirmed that it is nevertheless a federal crime under a nonpreempted 18 U.S.C. § 2314 for a former employee to transport across state lines papers carrying representations of trade secrets.

[28] 304 U.S. 64 (1938).

[29] 479 F.2d 320 (6th Cir. June 1, 1973) cert. denied ..... U.S. ..... (1973).

The public policy against theft of trade secrets exists independent of patent law preemption — but only with criminal remedies.

In *Screw Machine Tool Company* v. *Slater Tool and Engineering Corp.*[30] the setting was a contempt proceeding in an unfair competition case. The Sixth Circuit said:

> "Since the basis of an action for unfair competition is fraud [citations] the [copied noncopyrighted catalog] material under consideration need not be the subject of a valid common law or statutory copyright. For example, in Socony-Vacuum Oil Co. v. Oil City Refiners, 136 F.2d 470, 58 USPQ 632 (6th Cir.), cert. denied, 320 U.S. 798, 59 USPQ 496 (1943), this Court held that an action for unfair competition would lie even where there was no infringement of an exclusive right in the name or symbol.
>
> **Similarly, the lack of a copyright in the advertising or promotional material used by the appellee** [and copied by appellant] **is not a defense to an action for unfair competition.**" (Emphasis added.)

Under *Erie* the only civil unfair competition law is state law, allegedly preempted by the patent and copyright law. But the public policy against unfair competition law continues to be socially expressed in the federal criminal law.

Is it not anomolous for our structure of judicial practice to repeal the civil remedies for unfair competition in the nature of fradulent theft of trade secrets while continuing to enforce the criminal remedies for the same offense — no legislative body having made such a determination?

But then the Sixth Circuit in *Screw Machine* recanted its *Kewanee* rule, for in *Screw Machine* the unfair com-

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[30] 480 F.2d 1042, 178 USPQ 325 (6th Cir. June 15, 1973).

petition (there much less fraudulent than wrongful appropriation of another's expensively developed trade secrets) was held not preempted by the copyright law which, per *Goldstein*,[31] clearly reaches the subject copied catalogs.

Why the recant?

Because the public policy against fraudulent types of unfair competition, and in favor of civil remedies therefor, transcends patent or copyright law preemption if any there in fact be.

Perhaps there needs to be a federal unfair competition law whereby federal courts can afford civil remedies for fraudulent types of unfair competition.

But assuredly there must be **some** civil unfair competition law. For the sociological need is demonstrated in the Sixth Circuit's own 1973 trilogy, *Greenwald, Screw Machine,* and the billions of dollars worth of contracts protective of trade secrets that are nullified by *Kewanee.*

And the need for civil unfair competition law is demonstrated in the Paris and Pan American Conventions.

Aye, perhaps there is the thought.

Erie need not be an impediment to the development of a sort of federal "common law" of unfair competition that is not preempted by patent or copyright law, because the treaties are not preemptable.

Clearly the treaties in general admonitions proscribe the Bicron behavior and support the federal court's adoption of the state trade secret common law as the implementation of the self-implementing Pan American and/or Paris conventions.

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[31] Goldstein v. California, ... U.S. ....., 93 S. Ct. 2303, 178 USPQ 129 (June 18, 1973).

H. Legislative History of the Patent Act

The *Kewanee* opinion does not reveal any interest in or attention to the legislative history of the *drafting* of past or present Patent Acts.

Since the *Kewanee* rule is in the nature of writing a new section into Title 35 (see p. 4-5 above), and since it is the writing of a one-sentence statutory section that is clear and easy for the drafters of the Patent Act to have themselves written if they so intended, it seems appropriate that we should review the legislative history of the drafting of the Patent Act, Title 35, U.S.C.

1. The Constitution on Patents

Patent law has been recognized at least since the 1474 patent statute by the city-state of Venice, which statute reads in part:

> "And should it be provided that the works and contrivances invented by them [men of clever minds], others having seen them could not make them and take their honor, men of such kind would exert their minds, invent and make things which would be of no small utility and benefit to our state."[32]

That clause found its way, in paraphrase, into our own Constitutional Art. I, Sec. 8, Clause 8:

> "The Congress shall have the power * * * To promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries;"

Power not given Congress was of course reserved to the states. Hence, **there is no void created** wherein powers not granted to Congress were nevertheless denied to the states.

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[32] Patent Study No. 15, 85th Congress, 2nd Session (1958).

Preemption thereby can not be larger at its biggest, than Congress's authority.

The Congressional authority is concurrent with that of the states, not to the exclusion of the states.[33]

A key point overlooked in all the preemption opinions is that the Congressional authority is dominated by the conjunctive preposition "by," which ties the purpose to the means and the means to the purpose, inseparably.

The Constitutional grant is of power to set up one system (not necessarily the only system) but for *one purpose only,* to promote the useful arts. That purpose is tied to a single recited means.

The means designated as Congress' only way to implement the one purpose, was to secure rights to inventors. But the use of the means, securing rights to inventors, is empowered to Congress only for the one social purpose, promoting the useful arts, *and no other purpose.*

It is palpably false to suggest that Congress was granted any prerogative to use that means, securing rights, for any other purpose, like business ethics and equity.

Use of that means for all other social purpose, like establishing business ethics and equity, was reserved to the states.

* * *

Recall that in England and in our colonies, circa 1788 when our Constitution was being phrased, importers of inventions from other countries, who were not inventors, were commonly awarded patents. Soon thereafter states of the United States granted patents to noninventors, at least

[33] Cf. *Goldstein* v. *California,* ..... U.S. ....., 93 S. Ct. 2303, 178 U.S.P.Q. 129 (June 18, 1973), holding the copyright portions of the same balanced sentence in the Constitution which authorizes patents, is a grant of concurrent not exclusive rights, to Congress.

some being granted clearly for the purpose of promoting the useful arts.

For example, New York granted a series of steamboat patents, first to Fitch whose patent was later canceled, then to Livingston, later to Livingston and Fulton, the latter of which was the subject of *Gibbons* v. *Ogden*.[34] Clearly Livingston neither conceived nor reduced the steamboat to practice; he was merely Fulton's financial investor and an influential benefactor; he was not an "inventor." But the New York patent to this noninventor, among others, was conditioned that within twelve months there be "built a boat of at least twenty tons capacity which should be propelled by steam, and the mean of whose progress through the water with and against the ordinary current of the Hudson's river, taken together, should not be less than four miles an hour".

Clearly the Constitutional clause did not give Congress the power to grant such patents to noninventors.

The patent clause of the Constitution did not give Congress the power to grant cash awards to distinguished inventors to induce progress.

The patent clause did not give Congress the power to do its own R & D to promote progress — not the *patent* clause.

Promotion of the useful arts by means other than securing rights to inventors, was power not given to Congress; rather it was expressly reserved to the states.

All powers not granted to Congress being reserved to the states, the states have the power to promote the useful arts, for example, (a) by awards to inventors; (b) by state R & D efforts through state-supported universities; (c) by

[34] 22 U.S. 1 (1824)

granting exclusive rights for limited times to noninventors, whether or not the subject matter is patentable or has been in use for more than one year.

All of this, including the state right to protect "unpatented articles" was argued to the Supreme Court in *Gibbons* v. *Ogden.*[35] Daniel Webster, and more completely the Attorney General, argued that the steamboat patent granted by the State of New York to Fulton and Livingston and acquired by Ogden, (i) was a nullity by virtue of federal patent law preemption and, (ii) could not be enforced against New York-New Jersey steamboat traffic because it was in interstate commerce, duly licensed pursuant to the commerce clause. Mr. Oakley in arguing in response to both patent law preemption and commerce clause preemption delivered the most complete argument against federal patent law preemption that has ever to this day been assembled anywhere. The report of the case summarizes Oakley's patent law nonpreemption argument for over 40 of the original opinion pages.

The court could decide the case for Ogden on either of Webster's two grounds, or both. One of the great judicial activists of all time, John Marshall, finding that the state patent could not be enforced against expressly licensed interstate commerce, declined to find on patent law preemption and left the state patent alive to be litigated again at a later date as against intrastate commerce.[36]

* * *

2. The Patent statutes, generally

Various patent statutes were enacted under the constitutional clause.

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[35] 22 U.S. at 142 (1824).

[36] *The North River Steam Boat Company* v. *John R. Livingston* (son of Fulton's friend Robert Livingston), 3 Cowen 713 (NY 1825).

All spoke in terms that an inventor has the option (e.g. "may") of applying for a patent. Noninventors may not apply.

All spoke in terms that patentees would have X years (now 17 years) of protection.

A disclosure of the invention of at least some sort is inherently required in order to identify the thing patented; but the public service aspects of the patent disclosure seems to have found common expression only in modern, very recent literature, and it seems not to have been on *any*body's mind at least until after 1850.

The patent statutes were property-philosophy statutes, "securing" in inventor's their somehow inherently natural "property" right in their invention, the honor to the natural "property" right being also the carrot by which to induce both the sweat of inventors and the capital of their financial backers into R & D and also into market development.

The earliest treatise authority on patent law spoke of their relation to trade secrets, thus:

> "As the right of an inventor to his secret invention and to a remedy for the wrongs by which his property therein is injured, **are not dependent upon the provisions of the Patent Law, they exist equally whether the invention is or is not in its nature patentable.** * * *
>
> "If the creator of these unpatentable inventions chooses to preserve his secret he has a right to do so, *as also to communicate it confidentially under such restrictions as he deems expedient* * * * " Robinson on Patents, Vol. III, Sec. 873 (1890). Emphasis added.

* * *

The Constitutional grant is of one power to Congress to set up a system to promote the arts solely by the means of securing to "inventors" rights in their "discoveries," there being no Constitutional expression evidencing cogniz-

ance of a standard of novelty or patentability. Neither the word "novelty" nor "standard of patentability" or its equivword "novelty" nor "standard of patentability" nor its equivalent, is found in the Constitution. Clearly at the time of Constitutional drafting, every producer of a new gadet was within the connotations of "inventors." But the Supreme Court now writes that "The patent standard is basically constitutional" and construes that standard to be a high, difficult-to-obtain one.[37]

Since the Constitution reserved to the states all authority not granted to Congress, the protection of lower-standard inventions that fail to meet the Constitutional standard of patent protection for "inventors", cannot be preempted.

The antiprotectionist theme cannot either in logic or law have it both ways, that the Constitution limits patents to the very few dramatic technical breakthroughs while a statute pursuant to the Constitution preempts state action on all technology of lesser stature.

* * *

If the patent statute preempts, as alleged, all right to preclude the use of information, it preempts the state police power as well. It preempts the city's right to prevent manufacture of fireworks in the proximity of schools, for the few who would be involved in the manufacture are by the patent-law-preemption theory guaranteed that they cannot be precluded from using the public domain technology on fireworks manufacture by any other than the patent law.

Perhaps more pointed: If the patent law preempts all other social policy on rights to exclude, and thereby guarantees the right to use subject matter not covered by valid

[37] *Anderson's Black Rock* v. *Pavement Salvage Co.*, 396 U.S. 57, 61, 90 S. Ct. 305, 308 (1969).

patent, it guarantees the right to sell toxic drugs covered by expired patents, irrespective of state drug regulations for its public's safety.

The consideration of this ridiculous extreme forces the conclusion that preemption as a theory, forceably and necessarily reaches too far, hence must fail.

There is no conflict between a statutory extension of common law protection and the common law protection, no conflict between securing a right to preclude others for the social purpose of the patent system, and leaving untouched the common law right to preclude others for either the same social purpose (promoting the arts) or a different social purpose (preservation of private good faith in business dealings), both of which seem to be inherent roles of the trade secret law.

It would seem that if any one of the drafters of our many patent acts since the first one in 1790, had wanted to terminate trade secret rights after one year's commercial use, he might easily have so recited in the same paragraph where he cut off the right to file for a patent after one year's commercial use. But this, of course, was not done by the statute drafters. Contrast the copyright statute, 17 U.S.C. § 2, where the statutory drafter wrote upon and considered the scope of the preempted and nonpreempted territory — a clause for which the patent statute has no parallel.

The present patent law is the Patent Act of 1952, Title 35 U.S.C., the legislative history of which is peculiarly well recorded. And since that particular writing is the thing now alleged to preempt, the legislative history of that writing is of peculiar interest.

But before that history can have its full meaning, it is

necessary to understand the state of the law as of the time of drafting of the 1952 Code.

• • •

3. State trade secret law development

State courts failed to find either evil or conflict with the patent law in the act of A contracting with B,

> "I'll tell you what I know, if you'll pay X dollars and keep the secret,"

so they enforced such contracts. They evolved a body of case law in most states. The state case law has always been essentially uniform in its view that obligations of confidence are enforceable in court — this even though the legal theories seemed not always the same.

Courts spoke sometimes in terms of property or quasi-property, sometimes not so much of property as of the tort of breach of confidence, sometimes of contracts and quasi-contracts.

But the gravamen of the cause remained always the enforcement of private good faith.

The Restatement of Torts in 1939 developed its expression, § 757, protective of trade secrets and confidential information. In Comment (a) to § 757, the Restatement of Torts discusses the rationale of patent and trade secret protection, as concurrent systems of protection without conflict between them.

The Restatement of Restitution (1937) provides in its § 136 for restitution of the value derived by use of another's trade secret.

The Restatement of Agency, 2nd (1958), tracking on this point the pre-1952 first Restatement of Agency, proscribes use of confidential information belonging to another, in its Sections 395 and 396.

The Restatement of Trusts, 2nd (1959), provides in § 82(e), simply: "A trade secret can be held in trust."

So stood the common law of trade secrets as of the drafting of the 1952 Patent Act.

There came a time after *Sears* and *Compco*[38] when trade secret pirates were operating with such vigor, that twenty-one states enacted criminal laws making it a crime wrongfully to appropriate a trade secret.[39]

The parallel of trade secret piracy and state legislative acts, to the sudden bloom of phonograph record and tape piracy after *Sears* and *Compco* which brought about state and federal legislative acts directed to that specific piracy, cannot escape notice. See *Goldstein* v. *California*, ... U.S. ....., 935, Ct. 2303, 178 U.S.P.Q. 129 (1973).

4. Congressional law on trade secrets

Congress itself has specifically sanctioned payment of consideration for acquisition of "secret processes, technical data, * * * and other property or rights by purchase, license,

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[38] Sears, Roebuck & Co. v. Stiffel Company, 376 U.S. 225 (1964), Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964).

[39] Ark. Stat. Ann. §§ 41-3949 to 3951 (1967); Cal. Penal Code § 499c (1967); Colo. Rev. Stat. § 40-5-33 (Supp. 1969) § 40-5-34 (Supp. 1967) (1967); Ga. Crim. Code § 26-1809 (1968); Ill. Rev. Stat. Ch. 38 § 15-1 to -9, § 16-1 (1965); Ind. Code §§ 35-17-3-1 to 35-17-3-5 (1969); Me. Rev. Stat. Ann. Tit. 17, § 2113 (1967); Mass. Ann. Laws Ch. 266 §§ 30(4), 60A (1967); Mich. Compl. Laws §§ 752.771 to .773 (1968); Minn. Stat. Ann. § 609.52 (1967); Neb. Rev. Stat. Ch. 28, §§ 548.01 to .03 (1965); N.H. Rev. Stat. Ann. Ch. 580, § 32 (1967); N.J. Stat. Ann. §§ 2A: 119-5.1 to -5.5 (1965); N.M. Stat. Ann. § 40 A-16-23 (1967); N.Y. Penal Code § 155.00(6), 155.30 (3), 165.07 (1967); N.C. Gen. Stat. § 14-75.1 (1967); Ohio Rev. Code Ann. Tit. 13, §1333.51, 1333.99 (1967); Okla. Stat. Titl. 21, § 1732 (1968); Pa. Stat. Titl. 18, § 4899.2 (1965); Tenn. Code Ann. §§ 21-4328 to 4240 (1967); Wis. Stat. Ann. § 943.205 (1965).

lease * * * ." This statute is without regard to whether the secret processes have been in use for more than one year. 42 U.S.C. § 1857b-1 (b) (4); 16 U.S.C. § 778e (e); 30 U.S.C. 322 (b).

Congress also enacted Internal Revenue Code, 26 U.S.C. § 861 (a) (4) and 872 (a) (4) dealing with taxation of royalties for the licensed use of secret processes and formulas — relying upon the then law of trade secrets that did not terminate the license after one year.

Congress has passed a multitude of other enactments, in reliance upon the established trade secret law and without purporting to change it.[40]

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[40] See for example, the Freedom of Information Act, 5 U.S.C. § 552(b)(4) prohibiting federal agency disclosure of trade secrets; 18 U.S.C. § 1905 making it a federal crime for a United States officer or employee to disclose a trade secret; Section 24 of the Securities Exchange Act of 1934, 15 U.S.C. § 78x, preventing the SEC from requiring that trade secrets or processes be revealed; Section 6(f) of the FTC Act, 15 U.S.C. 46(f), preventing the FTC from making trade secrets public; 15 U.S.C. 1193(c) requiring trade secrets received by the Commerce Department in reference to fabric flammability regulations to be considered confidential; 15 U.S.C. 1263(h) prohibiting any person from using or disclosing trade secrets acquired in connection with HEW inspection and investigation of hazardous substances; 15 U.S.C. 1401(e) requiring trade secrets received in Transportation Department inspection and investigation of federal vehicle safety standards to be considered confidential; 21 U.S.C. 331(j) prohibiting any person from using or disclosing information concerning methods of processes acquired under Food, Drug & Cosmetic Act which are trade secret; 21 U.S.C. 458(a)(5) prohibiting use or disclosure of trade secrets acquired under Poultry Products Inspection Act; 33 U.S.C. § 1160(f)(2) providing that no person shall be required to divulge trade secrets at public hearings under the Federal Water Pollution Control Act; 42 U.S.C. 263i(3) prohibiting disclosure by HEW of trade secrets obtained in enforcing Radiation Control for Health and Safety Act of 1968; 42 U.S.C. 1857d(e)(5) providing that no witness shall be required to divulge trade secrets in any hearings under Clean Air Act; 42 U.S.C. 1857f-6c(c) requiring trade secrets obtained by HEW

5. Supreme Court Law on Trade Secrets

The first presentation to the United States Supreme Court of federal patent law preemption of state powers over progress of the useful arts and/or over inventions, was in *Gibbons* v. *Ogden*,[41] where the New York state patent on the steamboat was before the Court. See page 51-52 supra.

At least as early as 1889 the United States Supreme Court was upholding contracts involving the conveyance of confidential information. *Fowle* v. *Park*.[42]

In *Board of Trade* v. *Christie Grain & Stock Co.*,[43] this court said:

> "In the first place, apart from special objections, the plaintiff's collection of quotations is entitled to the protection of the law. It *stands like a trade secret.* The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they might, does not authorize them to steal the plaintiff's [citation]. *The plaintiff does not lose its rights by communicating the result to persons, even if many, in confidential relations to itself,* under a contract not to make it public, and strangers to the trust will be restrained from getting at the knowledge by inducing a breach of trust and using knowledge obtained by such a breach." p. 250-51 (Emphasis added).

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in connection with registration of vehicle fuel additives to be considered confidential; and 35 U.S.C. 122 providing for the preservation of applications for patent in secrecy until the patent issues, i.e., until the applicant knows what patent protection he is going to get and thereafter authorizes issuance of the patent.

[41] 22 U.S. 1 (1824).

[42] 131 U.S. 88 (1889).

[43] 198 U.S. 236, 250-251 (1905).

The Supreme Court in 1911 stated:

> "A secret process may be the subject of confidential communication and of sale or license to use . . . ."
> Dictum in *Dr. Miles Medical Co.* v. *Park & Sons Co.*,[44]

The Supreme Court again sustained trade secret protection in 1917 in *DuPont Powder Co.* v. *Masland*.[45]

In 1929, the Supreme Court held:

> "It is plain that that suit had for its cause of action the breach of a contract or wrongful disregard of confidential relationships, *both matters independent of the patent law*, and that the subject matter of Oppenheimer's claim *was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust.* [citations] *Oppenheimer's* [*trade secret*] *right was independent of . . . the patent law . . . .*"
> *Becher* v. *Contoure Laboratories, Inc., et al*,[46] (Emphasis added).

Then in 1933 we find the Supreme Court again agreeing in *U.S.* v. *Dubilier*,[47] that:

> "He [the inventor] may keep his invention secret and reap its fruits indefinitely."

Such is the inventor's option, if he so elects. The Court went on to point out an alternative option:

> "In consideration of its [the invention's] disclosure, and the consequent benefit to the community, the patent is granted."

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[44] 220 U.S. 373, 402 (1911).
[45] 244 U.S. 100 (1917).
[46] 279 U.S. 388, 391; 49 S. Ct. 356, 357 (1929).
[47] 289 U.S. 178, 53 S. Ct. 554 at 557 (1933).

In the famous and oft-followed-sometimes-distinguished *INS* v. *AP* case,[48] the Supreme Court in an unfair competition case where copyright law preemption was strongly urged upon the Court, applied a nonpreemption rule. There the Supreme Court held that the commercial use for profit of even published information was in the circumstance there present a "misappropriation" of "quasi-property" that was not sanctioned by the copyright [or patent] laws.

All that law was Supreme Court law prior to *Erie Railroad Co.* v. *Tompkins*.[49] when there was a federal common law. When *Erie* terminated that law, those opinions nevertheless were followed in the state courts.

Never in any case where trade secret law and industry practice was briefed to the Court, has the Supreme Court intimated any retreat from the law so announced.

The *Kewanee* opinion cites *Grant et al* v. *Raymond*,[50] as though it infers something inconsistent with the above; but not so. The issue in *Grant* was the validity of the reissued patent when the patent owner had first obtained a patent containing a defective disclosure, had surrendered that patent and obtained another with a corrected specification. In approving the reissue patent procedure, the Court seems to have written in context of an assumed right of the inventor not to seek at patent at all.

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[48] International News Service v. Associated Press, 248 U.S. 215 (1918).

[49] 304 U.S. 64 (1938).

[50] 31 U.S. (6 Pet.) p. 218 (1832).

The *Kewanee* opinion also quotes from *Kendall* v. *Winsor*,[51] dictum expressions suggested to connote forfeiture of trade secret rights if a patent were not promptly sought. But suit there was on a patent, not on trade secret rights. The issue there was not loss of trade secret rights, but loss of the right to seek a patent by commercial exploitation of the invention for a long time before filing for the patent — and the court *sustained* the patent over the thereoccurring delay. There being no trade secret issue before the court, no evidence of R & D economics before the court, and so far as appears no briefs directed to the breach of confidence theme, the case is hardly a proper authority for any factual findings about impeding progress through one inventor's keeping of his own secret, all others being free and unrestrained.

Supreme Court law, *in trade secret cases,* has **always** supported trade secret law as not preempted by patent **law.**

6. Federal Courts of Appeal on Trade Secrets

The Courts of Appeal, following the lead of the Supreme Court and of state courts since *Erie* v. *Tompkins,* have sustained trade secrets in numerous cases ranging over the circuits. The *Kewanee* opinion acknowledged four such opinions from four different circuits since *Sears* and *Compco* which conflict with *Kewanee.*[52]

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[51] 62 U.S. 322 (1859).

[52] Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964), *cert. den.* 383 U.S. 934 (1966), *rehearing denied* 384 U.S. 914 (1966); Dekar Industries, Inc. v. Bissett-Berman Corp., 434 F.2d 1304 (9th Cir. 1970) *cert. den.* 402 U.S. 904 (1971); Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163 (5th Cir. 1969); Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2nd Cir. 1971).

7. The 1952 Patent Act

In 1950-1952, the gestation period of the Patent Act of 1952, present Title 35 U.S. Code, the nonpreemption of trade secret law stood **second to no other rule of law** in the firmness of its then establishment as a rule of law of our entire nation, second to no other in the sheer mass of contracts and commercial practice built on a rule of law.

That Act was written perhaps by four, but primarily by two men, The Honorable Giles Rich, now judge on the Court of Customs and Patent Appeals but then one of the National Council of Patent Law Association's two-man drafting committee for the patent law revision effort; and the Honorable Pasquale J. Federico, Examiner-in-Chief of the United States Patent Office and also chief technical advisor to both the House and Senate subcommittees having jurisdiction over the patent law codification. Mr. Federico personally wrote the entirety of the first draft of what became the Patent Act of 1952, and was a participant in both the bar studies and the Congress's studies in all the revisions that matured into that Act.

As a result of his deep involvement in all phases of the drafting and revision of drafts of what is now Title 35, Mr. Federico wrote a comprehensive "Commentary on the New Act" which was published by West Publishing Company as a foreword to its original publication of the New Title 35, United States Code Annotated.

As a result of deep involvement in all phases of the revisions after Mr. Federico's first draft, and his personal drafting of several sections of what became the new law, Judge Rich was asked to speak at the first Annual Institute on Patent Law, of the Southwestern Legal Foundation, Dal-

las, Texas, March 21-22, 1963, on "Congressional Intent — Or, Who Wrote the Patent Act of 1952?" His paper has been reproduced in "Seminars for Newly Appointed United States District Judges Conducted by The Federal Judicial Center," 1970 and 1971.

From both writings it is clear that the central theme of the 1952 Patent Act, was codification with only relatively "noncontroversial" changes. Nothing recorded anywhere that this Amicus has been able to find, suggests any cognizance by any of the drafters of the Act, or by any of the members of the committees of Congress, or by any of the members of Congress, that they were in fact changing thoroughly established trade secret law upon which billions of dollars of business practice was built — an assuredly controversial change.

Later, in his capacity as a judge, Judge Rich wrote again what he, an author of the Patent Act believed:

> "Patent laws function only to keep things out of the public domain temporarily. They have nothing to do with putting things into it. They say nothing about right to copy or right to use, they speak only in terms of right to exclude."[53]

Present Title 35, Section 101 reads in part:

> "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, *may* obtain a *patent* therefor," (Emphasis added)

The statute is permissive; it is not mandatory. There is no language of taking from the inventor any rights if he fails to apply for a patent. If intended, it would have been easy to write *Kewanee's* new law cutting off trade

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[53] Opinion by the Honorable Judge Giles Rich in Mine Safety Appliances Co. v. Electric Storage Battery Co., 405 F.2d 901, 902 n.2 (CCPA 1969).

secret rights after one year into perhaps the same patent statute paragraph as the one cutting off patent rights after one year of commercial use.

Recall that the Constitutional authority is limited to inventors. Congress has no constitutional authority as to noninventors, who collect trade secrets from, shall we say, spies in industrial plants in foreign countries. Are spies in foreign plants who are outside Congress's patent law authority, to be held not preempted while U.S. inventors are preempted, the statute saying nothing about taking rights from either of them?

Did either the statute drafters or the Sixth Circuit consider such anomalies when writing their respective law?

It is clear beyond peradventure that the consciousness of none of the legislative participants involved in the Patent Act had any cognizance of the thing *Kewanee* says they did.

Not one brain was ever cognizant of what the Sixth Circuit in *Kewanee* says was being done.

What frightful system of government that permits any law concerning billion dollar commercial impact to be made by "policies" alleged to be found in a statutory non-expression, without any single brain being cognizant of the alleged "policies" when drafting or enacting the statutory non-expression.

I. "Legislative History" of Preemption

1. *Non-preemption thru Gibbons, INS, Becher and Dubilier.*

It follows from the foregoing that the *Kewanee* rule is its own legislation. And like all legislation it has its own "legislative history," a history that is found in a series of *non*trade secret cases.

Accepting the *Gibbons* v. *Ogden* refusal to adopt patent law preemption in context of a recitation of 40 pages of argument on it, as a denial, it becomes fair to say that to this Amicus' knowledge the original conception between patent law and something it might preempt was in *Singer* v. *June*.[54] Using headnote paraphrases, the court there held:

> Where during the life of a monopoly created by a patent, the trade name has become the identifying and generic name of the patented invention, this name passes to the public with the cessation of the monopoly created by the patent.

The 1896 mating of patents and trademarks in *Singer* was an unfortunate error that for decades produced no offspring. Preemption did not timely follow from this mating.

The nonpreemption by the statutory copyright law of both the common law copyright and the law of unfair competition as applied to writings, seemed established in *INS* v. *AP*,[55] and the nonpreemption by the statutory patent law of the unfair competition law as applied to trade secret law seemed established by such as *Becher* and *Dubilier*,[56] all Supreme Court cases.

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[54] Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169 (1896).

[55] International News Service v. Associated Press, 248 U.S. 215 (1918).

[56] Becher v. Contoure Laboratories, Inc., 279 U.S. 388, 49 S. Ct. 356 (1929) and U.S. v. Dubilier Condenser Corp., 289 U.S. 178, 53 S. Ct. 554 (1933), discussed at page 56 hereof.

2. *Kellogg's dictum, trademarks erroneously preempted*

After a forty year gestation period, *Singer* begot *Kellogg*[57] which cited *Singer*, and by divided court held as paraphrased in West's headnote 3:

> "Where 'Shredded Wheat' was the general designation of patented product during life of patents covering product and process of making it, the right to make the product as it was made during the patent period, and also the right to apply to it the name by which it had become known, passed to the public on expiration of the basic patent."

The court repetitively spoke in terms of "dedication" by expiration of the patents. But no patent law language speaks either in terms of "dedication" or of "trademarks", much less in terms of "trademarks being dedicated." And there are tremendous practical and legal differences between (a) termination of a *patent* right to exclude copying and use, and (b) grant to all members of the public by "dedication," of an affirmative right to copy and use a *trademark*. Apples and bananas!

While the *Singer* and *Kellogg* judgment-for-defendant results were correct under the trademark law,[58] the admixture of expired patent rights to quell trademark rights reads like Alice in Wonderland and has begot much mischief by those who speak the same erroneous expression in other fact situations as the unthinking parrot repeats what it heard.

We need to review again the relationship between several examples of rights to preclude, the better to understand that "expiration" of a right to preclude is not "dedication" of a right to copy and use.

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[57] Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 59 S. Ct. 109 (1938).

[58] See p. 69-70 infra.

Frequently, two patents cover the same product; i.e., one patent right-to-preclude-others "dominates" another patent which may relate to a subcombination or an improvement. Expiration of the dominated patent terminates *that* patentee's right to preclude; but it is uniformly held that this expiration does not grant anybody the right to use the invention of the expired patent when so to do would infringe the dominating patent. I.E., the expiration does not put anything into the public domain; it merely terminates a right to keep something out of it.[59]

* * *

Consider a second example. Suppose the patent is on a food or drug and expires. Clearly that expiration of the patent right to preclude does not put the food or drug forcibly into the public domain by dedicating to all the right to manufacture and sell—not if it is so toxic that food and drug law prohibits its manufacture or sale. There is no "conflict" between expiration of the patent right to preclude, and a continuation of the food and drug regulation policies which may preclude.

* * *

3. Mazer's nonpreemption.

Suppose next that a design patent (fourteen years) is available on an artistic design of a lamp base, and a copyright (28 years) issues on the sculpture which is that same design. In *Mazer* v. *Stein*[60] the Court discussed at some length the different scope of copyright protection (only against copying) and patent protection (against use of the same concept whether copied or independently developed) and specifically held that the availability of

[59] Mine Safety Appliances Co. v. Electric Storage Battery Co., 405 F2d 901, 902, n.2 (CCPA 1969).

[60] 347 U.S. 201, 74 S. Ct. 460 (1954).

patent protection did not preempt copyright protection.

In ruling that appropriateness for patent rendered trade secrets preempted by the patent law, the *Kewanee* opinion shows no cognizance of the modern and closely parallel ruling by the Supreme Court in *Mazer*, that appropriateness for patent does not preempt copyright protection. On social policy (as distinguished from policies concerning federal structure of government) the two concepts seem indistinguishable; on social policy grounds, *Mazer* should control *Kewanee*.

* * *

4. Trademark laws function independently of patents.

Return now to the example involved in *Singer* and *Kellogg*. A trademark is a word or design the significant meaning of which is *brand*. A trademark indicates a single source of a product, a single brand of that product.

The trademark right is the right of the owner of the mark to preclude the type of competitive use of the word or design (i.e. the trademark) which would cause the public to be confused as to the source of the product, whereby the purchaser in seeking one known quality would be deceived into getting another. The trademark owner's right is derived vicariously from the public right to be not confused. Trademark law has no concern for the patent law's concerns, inventorship, progress of the arts, inherent property in one's own creation, alleged monopolies on products. (The same product can be sold under different trademarks and normally is.)

But if a trademark word becomes generic, e.g., if the public through the proprietor's misuse of the mark comes to use the word no longer to suggest customer's preferred manufacturer or brand but rather to describe the type of

product he wants, then the public is no longer confused-as-to-source by competitive use of the word; it ceases to function as a mark. If "escalator" means "moving stairway," *any* moving stairway and not just Otis's *brand* of moving stairway, it no longer is a de facto mark and its former owner loses all legal rights in it.

But the loss of the trademark right is independent of the patent right, both in social purpose and in point of time. The right in a trademark (e.g., Magnavox, Ivory or Ford) may last 70 years without monopolizing the product, or the right may terminate upon the word going generic (as did escalator, cellophane, aspirin) perchance in five years — and the patent law could not care less.

In both *Singer* and *Kellogg* the several significant patents in each case expired at different times; no one of their expirations effected the loss of the trademark rights. In reality it was the public's lack of familiarity with any other descriptive or generic word but the former mark, now used descriptively by the public, that terminated the trademark right. The patents were handy and got blamed for the loss of the trademark rights by association. But the trademarks terminated by operation of the *trademark* law.

It is significant to note that in both *Singer* and *Kellogg*, not only was the reference to patents error, it was dictum; for the judgment was properly founded upon the mark going generic and it was not necessary to reach patent law dedication. Dictum error building on dictum error.

5. *Scott Paper; good faith in business is no longer important public policy.*

Soon after *Kellogg* came the "assignor-estoppel" case, *Scott Paper*.[61] A philosophy against restraints on trade

[61] Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249, 66 S. Ct. 101 (1945).

seems in 1945 to have dominated the thinking of some members of the Court which in 1945 spoke not infrequently in absolute terms of monopoly when only the mildest restraints were involved.

The issue in *Scott Paper* was whether the assignor of a patent who got valuable consideration for his assignment, when charged with infringement, should be permitted to construe the scope of the assigned patent down to zero valid scope (in effect, invalid) under the guise of arguing noninfringement. Could he totally nullify the patent he sold or should this one party, the assignor, be estopped by his own prior assignment-for-value from such action? The prior art relied upon by the assignor-infringer was a prior expired patent.

Only a few years before the Court had written in *Kellogg* about "dedication" upon expiration of a patent, citing *Singer*. So now, citing *Kellogg* and *Singer* the Court again got hold of this "dedication" word and used it to implement its no-restraint-of-trade philosophy. Said the majority of six justices: The expired patent dedicated its subject matter to the public, including the assignor-infringer of the patent in suit through which the public could enjoy the benefits of the dedication. Further:

> "The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power."[62]

It shocks and astonishes, to see our highest court so callous as to give the back of its hand with a cavalier wave, to private good faith. No wonder we now have air force Lieutenants falsifying records on Cambodia bombings; White House officials condoning break-ins for wire taps;

[62] Id. at 257.

etc. Who if not the Supreme Court should be a leader in encouraging high regard and priority position for private good faith?

Over separate dissents by such as Mr. Justice Reed and Frankfurter, the Court wrote "dedication" into the patent law, to justify its refusal to permit one party among thousands of potential competitors to be estopped from disavowing his own contract, hence from use of the teaching of one expired patent.

Antitrust is not the sole public policy, not the one true god at whose alter all other public policy should bow down.

6. Sears and Compco vs Wallace China

The stage was fully set in *Scott Paper,* for *Sears* and *Compco*[63] where the design patents on ornamental designs had been held invalid, and the lower courts had granted judgment for plaintiff on ground that copying the designs was unfair competition.

It seems clear that if the courts in *Sears* and *Compco* had applied the proper unfair competition and product simulation law which is characterized in *Pagliero et al* v. *Wallace China Co.*,[64] the Court's judgement-for-defendant result which seems so necessary to reconciling the intellectual property laws into a single coherent fabric, would have obtained without the mischief of patent law preemption.

The starting point of what is fair and unfair common law of product simulation is a right to copy and use published works learned of without an obligation of confidence. To that right there are many exceptions of different social purpose, term and scope, e.g., the patent right, the

[63] Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964), Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964).
[64] 198 F.2d 339 (9th Cir. 1952).

copyright, the anti-palming-off unfair competition right, the food and drug regulation right, the trademark right, the anti-breach-of-confidence right, etc.; but none of the exceptions fit *Wallace's* situation.

Wallace's biggest argument was that it was the originator and market-developer of four china designs and that that originator-developer fact alone gave it rights, particularly since the designs had acquired trademark "secondary meaning," i.e., the public identified the designs with Wallace as the source. But the design was of interest to the purchaser for its design function and had been published by Wallace; and the trademark right (being not designed to monopolize or restrain trade in the *product* the public wanted, but only to assure lack of public confusion as to *source* of the product) could not properly be applied to the product feature which the public wanted to buy as product feature. The social purpose of trademark law did not reach that far.

So the common law of trademarks and unfair competition (under *Erie*, common law is state law), adopted into the Lanham Trademark Act § 44(h), 15 U.S.C.A. § 1126(h), the Paris Convention (53 Stat. 1748) and Pan-American Convention (46 Stat. 2907), did not in the Ninth Circuit's view Paris Convention (53 Stat. 1748) and Pan American Conreach far enough to give *Wallace* the right it claimed. There was an unfair competition law limit on the unfair competition law; no patent law issued was involved.

In *Sears* and *Compco*, where the *Wallace* China unfair competition law so perfectly fit to dictate the socially desirable result, the Supreme Court got its hand on the wrong handle. The Supreme Court took the unrefined, indescriminate, bull-in-china-closet approach, that since the patent law concerned itself in some manner with mechanical configurations [if and when they are new and nonobvious in-

ventions by inventors], the patent the patent law inherently preempts state unfair competition law power over the light fixture designs. Of course, citing *Kellogg* and *Singer*, among others.

By the measure of *Anderson's Black Rock*[65] the inventions in *Sears* and *Compco* failed to meet what *Anderson's* called a Constitutional standard of patentability, one which for this purpose we will assume exists. (Contrast last paragraph p. 53 et seq. hereof).

In view of the reservation to the states of all powers not granted to the Congress, if the inventions were not patentable under the Constitution, no state law applicable thereto can have been preempted by the Constitution. For there is no hiatus, no void, in the powers: What power is Constitutionally *not* in Congress, *is* in the states.

Yet the court wrote in *Compco* this characterization of its holding in both *Sears* and *Compco*:

> "Today we have held in *Sears* * * * that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article."[66]

This total expression of preemption, irrespective of whether the inventions meet what the Court in *Anderson's Black Rock* calls a Constitutional requirement for patentability, is patently wrong in view of the reservation of all nondelegated powers to the states.

This *Compco* expression is one of preemption irrespective of breach of confidence (which was not before the court), irrespective of whether the article was made by an inventor or a noninventor (Congress is empowered only

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[65] Anderson's Black Rock v. Pavement Salvage Co., 396 U.S. 57, 90 S. Ct. 305, 308 (1969).

[66] 376 U.S. at 237.

to secure rights to inventors and may not dabble in rewards to noninventors as *Stiffel* and *Day-Brite* were held not to be).

—Error built upon prior dictum error, and not at all necessary since the same result obtains under quite sound *Wallace China* unfair competition law.

7. Sears, Compco and the explosion of unfair competition acts

Whether by coincidence or as a result of *Sears* and *Compco* and their arguable partial overrule of *INS, Becher* and *Dubilier*[67], *Sears* and *Compco* were followed by a bloom of phonorecord piracy which resulted in many state statutes rendering phonorecord or tape piracy a crime and an amendment to the federal copyright act which rendered phonorecord or tape piracy an act of copyright infringement — both directed to legal remedies for the same wrong which prior to *Sears* and *Compco* were illegal under *INS*.

Similarly, theft of trade secrets took such a turn that 21 states passed laws rendering theft of trade secrets a crime[68] and others construed their existing law to the same effect. The fact that *Sears-Compco* language spoke of preemption in near-total terms was in those acts disregarded because trade secrets were not before the court nor briefed to the court in *Sears* and *Compco*.

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[67] International News Service v. Associated Press, 248 U.S. 215 (1918); Becher v. Contoure Laboratories Inc., 279 U.S. 388 (1929); U.S. v. Dubilier Condenser Corp., 289 U.S. 178 (1933).

[68] See note 39, *supra*.

(8) Lear

Then the licensee-estoppel case, *Lear, Inc.* v. *Adkins*[69]: a suit seeking to collect royalties due under a contract of license of an invention and patent thereon; a defense that the subject patent is invalid, hence no royalties are due in spite of the license; the issue briefed to the Supreme Court being whether the licensee was estopped by virtue of being a licensee from contesting the patent's validity.

In spite of an acknowledged 100 years of prior licensee-estoppel law, the Court (again pursuing its *Scott Paper* theme against even de minimis restraints on trade in the name of patent property) decided that the licensee Lear was no more estopped to contest patent validity than the Marcalus assignor to Scott Paper.[70] Private good faith still seemed to the Court to be relatively unimportant by comparison with getting every last *one* (of dozens to thousands domestic and foreign potential competitors) freed of estoppels against competition.

Mr. Justice Black (who had written *Sears* and *Compco*) wrote for himself, and Justices Douglas and Warren, a special opinion expressing this time, total patent law preemption of the right to contract for royalties on unpatentable inventions. Mr. Justice Black's fixation on "monopoly" concept is peculiar. As a premise in support of his view, he wrote inter alia:

> "No state has a right *to authorize any kind of monopoly* on what is claimed to be a new invention, except when a patent has been obtained from the Patent Office under the exacting standards of the patent laws."[71]

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[69] 395 U.S. 653 (1969). See Arnold and Goldstein, "Life Under *Lear*", 48 Texas Law Review 1235 (1970).
[70] 395 U.S. at 673.
[71] *Id.* at 677 (Black, J, dissenting).

> Under Justice Black's view, if the innovation is "claimed" to be an invention, the state loses all power over it even though the innovation turns out to be not an invention within Congress power to patent and even though powers not granted to Congress were reserved to the states.

And Justice Black goes on to include within his rule, "private arrangements under which self-styled 'inventors' do not keep their discoveries secret, but rather disclose them, in return for contractual payments," saying these "run counter to the plan of our patent laws."[72]

But one or two people's contract to keep a secret is jolly well no "monopoly" when dozens, hundreds and thousands of other businesses are free to develop, publish, use and compete. And forcing them to pay for or develop new technology will better serve society through progress in the arts than sponsoring their nondevelopment free-loading.

The majority of the Court declined Mr. Justice Black's invitation, recognized that voiding of all contracts for disclosure of information was a "difficult" question, invited courts [why not legislative bodies?] to "fully focused inquiry" on the point, and remanded it. After all, the point had not been decided by the Court below, was not mentioned in the petition for writ of certiorari, was not really briefed to the court.

It is horrifying to contemplate a system of government which would permit such economically important new law to be made in a case like *Lear* where the public was not advised of the pending development and the parties' attention was totally focused on other issues which at the time were the fundamental issues at hand.

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[72] *Id.*

* * *

(9) Goldstein v. *California*

The Supreme Court has recently considered whether the copyright law really did preempt the state criminal laws passed following *Sears* and *Compco* to stop the multimillion dollar losses of the legitimate phonograph record companies from tape and record pirates.

On June 18, 1973 the Supreme Court in *Goldstein* v. *California*,[73] by a five to four divided court, held that the copyright law did not preempt California record piracy law. But at best the opinion is surely a mixed bag for the trade secret proprietor and licensor.

At the outset recall a fundamental difference between the copyright and the patent statute. The patent statute has no reference to common law and equity rights. But Section 2 of the Copyright Act, Title 17 U.S.C. provides:

> "Nothing in this title shall be construed to annul or limit the right of the author or proprietor of an unpublished work, at common law or in equity, to prevent the copying, publication, or use of such unpublished work without his consent, and to obtain damages therefor." * *

The right at common law and equity to be the first to publish is part of Congress's statutory system with respect to authors. Until *Kewanee* the courts uniformly held common law and equity to be part of the system also with respect to inventors — and particularly with respect to technologists other than inventors.

The positive statement of Copyright Act § 2 that certain common law rights are preserved, seems to carry a negative implication that other common law rights, if any, may be

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[73] ..... U.S. ....., 93 S. Ct. 2303, 178 U.S.P.Q. 129 (1973).

not preserved. But since the phono records and tapes in *Goldstein* had clearly been published, the role of 17 U.S.C. § 2, as applied to preemption, did not get into the *Goldstein* opinion.

The *Goldstein* opinion develops for some pages the issue of constitutional (as distinguished from statutory) preemption of state "power to grant to authors 'the exclusive Right to their respective Writings'." The conclusion: No *constitutional* preemption of state grant of exclusive right to authors in their writings, and this irrespective of the duration of the state's grant.[74] That portion of the opinion would read equally well, word for word, to the conclusion that the Constitution does not preempt state patents or trade secret protection of unlimited term.

But what of the federal copyright *statute*? The Court digs deep into legislative intent of the copyright statute, noting: The Congress pointedly waited on the Supreme Court's *White-Smith*[75] opinion which held piano rolls were not "copies" within the meaning of the then copyright act; Congress then determined that the copyright statutes should be amended to insure "that *composers* of original musical works received adequate protection to encourage further artistic and creative effort," and passed § 1(e) that records and piano rolls were to be considered as "copies" of the original composition and could not be manufactured unless payment was made

> "to the proprietor of the *composition* copyright. The section of the House Report cited by petitioners was intended only to establish the limits of the *composer's* right [no mention of performer's rights or record

[74] 178 U.S.P.Q. at 139.

[75] White-Smith Music Publishing Co. v. Apollo Co., 209 U.S. 1 (1908).

> manufacturer's rights]; * * * Nowhere does the report indicate * * * that Congress intended records as *renderings* of original artistic *performance* to be free from state control."[76] (emphasis modified).

Said the court further,

> "recordings qualified as 'writings' within the meaning of the Constitution, but had not previously [to the 1971 Act of Congress[77]] been protected under the federal copyright statute [except that the composer was entitled by the 1909 Act's § 1(e) to his compensation]."[78]

Hence, *Sears* and *Compco* do not apply because the federal copyright statute did not preempt state law protection of recordings fixed prior to the February 15, 1972 effective date of the 1971 Act (which subjected records to copyright protection).[77]

It is important to note that in *Goldstein* briefs to the Court and the Court seemed to presume without analysis of the point, that the copyright statute insofar as it reaches subject matter (composer's rights), is something more than a statutory right to exclude which expires without affecting any right to exclude that exists by virtue of any other social purpose or law. The premise was that the copyright law is an affirmative stautory putting-of-something-into-the-public-domain into the teeth of any state law of any kind that relates to composer rights. While the pragmatics of tactical reality compelled the parties not to challenge this premise, it remains difficult to see why the Supreme Court did not

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[76] *Goldstein*, 178 U.S.P.Q. at 137.

[77] Pub. L. 92-140, 85 Stat. 391, 53. Query: Did the 1971 federal copyright coverage of recordings then preempt the California statute, so that as of the date of the Supreme Court's *Goldstein* decision of nonpreemption, the California state statute had by then been preempted? It seems that *Goldstein* erroneously says yes!

[78] *Goldstein*, 178 U.S.P.Q. at 138.

acknowledge that such a distinction exists to be considered in its opinions.

The copyright law relationship to recordings seems to be all that was significantly briefed to the Court. Had the Court stopped with its ruling on that point, the nonapplication of *Sears* and *Compco* to innovations by importers and other noninventors and developers whose developments did not measure up to constitutional and statutory standards of patentability, would seem clearly to be established by *Goldstein*. For patent statute drafters not only did not, they constitutionally can not, treat of works by other than "inventors."

If the extent of copyright law preemption can turn upon the difference between the writings of composers (preempted) and of the writings in a phono record of a performer (not preempted), then patent law preemption ought also turn on the difference between the § 103 patentable work of inventors (as to which the patent statute speaks) and the nonpatentable works and noninventors' works (as to which the statute merely says no *federal* patent is obtainable, *without* saying whether the subject is or is not in the public domain).

But courts, like all the rest of us, have to do some things which seem expedient. And this court appears to have felt constrained not to overturn *Sears* and *Compco*, erroneous though their rationale is.

Recall here that *Sears-Compco* were both cases on competitive simulation of published and marketed lighting fixture products whose published and marketed mechanical configurations had been copied **without breach of confidence.** The *Goldstein* court did not study Congressional legislative intent on "mechanical configurations" because they were not before the court and were not really briefed to the court.

But the court did recall that the question in *Sears-Compco* "was whether a state could, under principles of state unfair competition law, preclude the copying of mechanical configurations which did not possess the qualities required for the granting of a federal design or mechanical patent."[79]

The Court then quoted from *Sears* with apparent approval, and went on:

> "In regard to mechanical configurations, Congress had balanced the need to encourage innovation and originality of invention against the need to insure competition in the sale of identical or substantially identical products. The standards established for granting federal patent protection to machines thus indicated not only which articles in this particular category Congress wished to protect, *but which configurations it wished to remain free.*"[80] (emphasis added)

The Congress only considered which it wished to remain free *of federal patents,* NOT which it wished to remain free of common law, equity, breach of confidence, food and drug, and other restraints. But the Court seems to miss that vital distinction and continues on:

> "The application of state law in these cases to prevent the copying of articles which did not meet the requirements for federal protection disturbed the careful balance which Congress had drawn and thereby necessarily gave way to the Supremacy Clause of the Constitution.[81]

"The careful balance which Congress had drawn", seems to this student of legislative history of the Patent Act, to be rhetorical overstatement. No "care" on this point, or "balance" is shown as to equity, common law, trust and

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[79] *Id.*
[80] *Id.*
[81] *Id.*

confidence, or any patent law purpose. But cliches and phrases have a power in human thought, independent of their truth, and when spoken without analysis or understanding, they seem often to be the more powerful. When they are placed as a subordinate thought, they are in the foundation-stone role, buried and likely not to be closely examined as will be the structure built upon them — and so they may there have even greater potential for mischief among well meaning men.

* * *

So from case to case, *Singer, Kellogg, Scott, Sears, Compco, Lear,* and now *Goldstein,* we see a group of cases wherein no trade secret law was involved, commence with dictum error of preemption, then build preemption in case after case, until the Supreme Court majority itself, in *Goldstein* purports now to have specifically considered and affirmed

patent law
preemption
of constitutionally
unpatentable
developments
of *non*inventors

because

Congressional legislative intent
reached, allegedly, all
"mechanical configurations."

irrespective of powers reserved to the states re noninventor's mechanical configuration work.

J. The Legislative Process v. The Judical Process — For New Law Making

The difference between legislating and common law making is a gradation with no natural boundaries and few guideposts to separate the one from the other. In truth, legislative bodies inherently make premise findings of fact, judicially, when they legislate; and courts legislate when they construe Congressional and Constitutional writings which inevitably include language readable on situations the authors did not contemplate or decide-an-issue about.

But there are guideposts as to where the judiciary should properly decline to act in favor of the legislature. The Supreme Court has often written of those guideposts. This Court has followed them in the patent law area as well as others.

The judicial process is inherently a relatively ivory-towered process. Examples: The judiciary cannot send investigators into an industry to study its economics and practices and bring back studies. By contrast, the Congress has in very recent years published for criticism dozens of studies of different facets of patent system function as well as drafts of proposed patent acts.

The judiciary often can know nothing of international impact of its rulings; the Congress gets input from the Department of Commerce, the international businesses and other lobbies.

The judiciary cannot publish a draft rule of law, have it cross-examined by those who would be effected, hold public hearings to hear comments on inadvertent error or ambiguities, then revise the rule before its promulgation with errors or ambiguities visits tremendous mischief upon those who know not how to apply it to their situations.

In areas such as the social role of R & D and its real life economics, the judiciary does not have ready access to what Mr. Justice Frankfurter called "the realities of law in action," and rather must decide upon the basis of its relatively ivory-towered and sometimes sterile generalizations and speculations.

It is against those background realities that the Supreme Court was writing very recently in Gottschalk:[82]

> "* * * considerable problems are raised which only committees of Congress can manage, for broad powers of investigation are needed, including hearings which canvass the wide variety of views which those operating in this field entertain. The technological problems [and international economic problems?] tendered in the many briefs before us indicate to us that considered action by the Congress is needed."[83]

That writing was in a case involving the patentability of a process for operating a computer, which most of us would call a machine, and wherein the act of Congress had already recited that a new process for operating a machine was patentable. 35 U.S.C. §100(b). But apparently because the Court did not think the Congress had given enough consideration to *computer* machine processes, it held the Benson process to be unpatentable subject matter until Congress could act again more directly to the point.

In another case, wherein the government was urging a change in the policy of title to inventions made by employees — philosophically a related issue to the *Kewanee* employees' claims — the Supreme Court stated:

> "The courts ought not to declare any such policy; *its formulation belongs solely to the Congress* . . . . These

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[82] Gottschalk v. Benson and Tabbot, 409 U.S. 63, 93 S. Ct. 253 (1972).

[83] *Id.*, 93 S. Ct. at 258.

> are not legal questions which courts are competent to answer. They are practical questions and the decisions as to what will accomplish the greatest good for the inventor, the government and the public, rests with the Congress. *We should not read into the patent law limitations and conditions which the Legislature has not expressed.*"[84] (emphasis added)

It is clear that the "Legislature has not expressed" *Kewanee's* new rule.

The trade secret law, having a history of many decades of uninterrupted coexistence with the patent law, brings to mind the weighty admonition of Chief Judge Cardozo in *Coler* v. *Corn Exchange Bank*[85]:

> "Not lightly [to be] vacated is the verdict of quiescent years.'

Here the verdict has stood for perchance a century of quiescent years and supports what now is business activity in the billions-a-year range.

A court with only the special circumstance of its plaintiff and defendant before it, and no economic data or industry practice information before it, is inherently presumptuous, yea perchance arrogant, to indulge such devastation to established business practice as the original creative expression of the *Kewanee* rule.

Preemption should be subjected to the scrutiny of the legislative process.

And the Congress has now before it, the Administration's proposed "Patent Reform and Modernization Act of 1973" with a section 301 which expressly negatives preemption of state trade secret law.

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[84] U.S. v. Dubilier Condenser Corp., 289 U.S. 178, 198, 53 S. Ct. 554, 561 (1933).

[85] 250 N.Y. 136, 164 N.E. 882 (1928).

K. Shadows Do Not Fight

There is a common law right to copy and use—with exceptions.

Each of the exceptions is like a shadow, cast from its own light of social purpose.

Each shadow is of different shape and different life time.

The shadows of copyright, patent, trademark, trade secret, breach of confidence rights to exclude others, all overlap some of the same nuggets of commercial gold, for the same design perhaps for a lamp fixture may be copyrighted, may be patented, may be a trade secret until it is marketed, may be used as a trademark.

But shadows do not fight.

If the trademark word becomes generic, the trademark shadow is removed without affecting the social purpose, scope or term of the patent shadow, or the others.

If the patent on an ornamental design expires, its shadow is removed without affecting whether or not that item is also a work of art which may qualify for copyright protection of narrower scope but that lasts longer.

When the patent issues it publishes the secret of the concept of the invention; to the extent of the publication the trade secret may be no longer confidential so the shadow of trade secret right is withdrawn without affecting the longer lasting patent right.

When the patent expires the patent right to exclude expires but no other right to exclude expires or is suggested in the patent statute to expire. If after the 17th year of a process patent the owner develops a new and cheaper way to practice the same patented process, his right of freedom from theft of his new secret and from

breach of trust can continue, out of the social purpose of equity and honesty and independent of patent law social purpose.

The only reconciliation of the various intellectual property rights to exclude, is one which recognizes that: Each right to exclude expires with the running of its **own** social social purpose, with no other right to exclude being affected by it, just as each shadow being taken away may leave the others, one or more, not fighting.

There is social and legal logic and merit in letting the social purpose of the patent law limit the scope and term of the patent right to exclude, the social purpose of the trademark law limit the term of the trademark right to exclude, the social purpose of the contract and tort law limit the scope and term of the trade secret right to exclude. For the shadows of the various social purposes do not fight.

VI.

Conclusion

This Amicus submits that the realities of law in action are such that patent law must not be permitted any preemption of trade secret law or practice — except insofar as the patent (like any other publication) publishes, destroys the confidence, and thereby precludes any breach of a confidence. And since patents disclose primarily the conceptual level of knowledge as of patent application time, this does not reach to such as new manufacturing know-how expensively developed often years after patenting time.

Further, this Amicus submits that no one of the intellectual property concepts should in social policy preempt the others — certainly none should be permitted to interfere with judicial promulgation of ever higher standards of business ethics and honesty.

Rather each intellectual property law must be honed on its *own* social purpose, properly to serve the public interest.

The Legislature rather than the judiciary should, in this complex area, be the government vehicle for the honing.

• • •

> "'Thou shall not steal' presupposes private ownership • • • Plainly, the excellence of our performance as social beings stems from private ownership of our labor and its fruits, whether material, moral, intellectual or spiritual".
>
> Leonard E. Read, *Meditations on Freedom*

Respectfully,

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APPENDIX A

Dollar Significance of Technology Within The Kewanee Rule

Know-how is very often sold for speculative values in equity participation, rather than for royalties or dollar payments. Such transactions of course do not ordinarily appear in economic data. Many of the major transactions are in royalty-free exchanges of data with no dollars attached at all, and these too are largely omitted from statistical studies. Further, payments for trade secret know-how are commonly intermixed with payments for other values ranging from patent licenses to training of the licensee's personnel.

Accordingly, it is impossible to gather precise figures on the dollar volume of know-how conveyances by United States industry. But as a rough estimate the billion-dollar-plus order of magnitude is reliably available from a number of sources, such as Department of Commerce studies of sources of international balance of payment credits, etc.

The 1961 figures from *Technological Innovation: Its Environment and Management,* A Report of the Panel on Invention and Innovation, U.S. Department of Commerce, 1967, are of interest though the figures are now some 12 years old. There we find:

> "An important element of our international balance of payments is what is called the 'technological' balance of payments. This international account reflects payments for technical know-how, patent royalties and the like. In a recent study of the technological balance of payments of various countries, the 'Organization for Economic Cooperation and Development' (OECD) published data for the United States which are depicted in Chart 5. The OECD compilation shows the U.S. receiving roughly ten times the technological payments

> from abroad as goes out in payments to other nations. This is a very significant secondary effect of innovation in the American economy."

The Chart 5 referred to in the above quote shows 1961 payments to other countries, $63,000,000; receipts by U.S. from others in 1961, $577,000,000; net balance to U.S. in 1961 of $514,000,000. These figures of course do not count domestic know-how licensing, nor the explosive increase in technology transactions in the last 12 years.

The National Industrial Conference Board, Inc., 845 Third Ave., New York, New York 10022, in its 1969 research report *Appraising Foreign Licensing Performance, Studies in Business Policy, No. 128*, cited published and unpublished data from the U.S. Department of Commerce, and stated that "receipts of royalties and license fees from abroad have more than doubled over the course of the last ten years, rising from around $378 million in 1957 to an estimated $786 million in 1967."

In *Survey of Current Business*, U.S. Dept. of Commerce, Vol. 51, No. 3, March 1971, the income to the United States in 1970 in fees and royalties from international arrangements is stated to be $1,538,000,000.

The exact amount of these fees and royalties which are properly allocable to know-how rather than patents or other sources is unknown, but many persons who work in technology licensing believe that the license value of unpatented technology is as significant as the license value of patented inventions.

A study of the relative importance of income from patent licensing and from know-how licensing is described in *Comparative Income Roles of U.S. Industrial Property Rights Licensed Abroad,* 14 IDEA 352, Fall 1970. This

study is informative, but it does not provide precise answers.

After review of the above figures, extrapolation to 1973, and subtraction for direct patent licenses which may be included, one comes to the conclusion that an order of magnitude approaching a billion dollars for income to the United States under *international* licenses of unpatentable trade secrets is a plausible figure. At the same time, one can reasonably conclude, based on the above 1961 data, that perhaps 10% as much, i.e., a value approaching one hundred million, is being paid annually by U.S. Industry to foreign business in exchange for foreign-developed know-how.

After addition of an unknown but very substantial value of domestic trade secret licenses (no meaningful figures are known), and royalty-free cross-exchanges of technology of assuredly big value but not appearing in the survey data, one must surely conclude that multiple billions are involved, annually in the licensing of U.S. owned trade secrets.

If one capitalizes the annual income to an asset value, the present asset value of U.S. trade secret know-how, which is within the *Kewanee* rule is in the order of magnitude of several billions of dollars, since very little, if any, technology is licensed for such high figures unless placed in use and usable for much longer than a year.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was mailed on or before November 21, 1973 to each counsel of record as follows: Mr. Edward P. Troxell, Jones, Day, Cockley & Reavis, 1750 Union Commerce Bldg., Cleveland, Ohio, 44115; Mr. Rober Milgrim, Milgrim, Tomajan and Jacobs, 25 Broadway, New York, New York, 10004; Mr. Wm. C. McCoy Jr., Bosworth, Sessions & McCoy, 625 National City Bank Building, Cleveland, Ohio, 44114.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

KEWANEE OIL COMPANY,
Petitioner,
v.
BICRON CORPORATION, *et al.*,
Respondents.

On Writ Of Certiorari
To the United States Court of Appeals
For the Sixth Circuit

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY,
Petitioner,

v.

BICRON CORPORATION, *et al.*,
Respondents.

On Writ Of Certiorari
To the United States Court of Appeals
For the Sixth Circuit

BRIEF FOR THE PETITIONER

OPINIONS BELOW

The findings of fact and conclusions of law of the district court are reproduced in the Appendix, except for proprietary material which has been excised (App. 51-90).[1] The district court's Order Supplemental to

[1] The following abbreviations will be used in this Brief: "App." refers to the printed Appendix; "Pet. App." refers to the Appendix to the Petition for Writ of Certiorari; "Br. App." refers to the Appendix to this Brief; "Tr." refers to the transcript of proceedings before the district court; "Fdg." refers to findings of fact made by the district court; "Con." refers to conclusions of

Memorandum of Decision and Order for Permanent Injunction are also reproduced in the Appendix (App. 91-94). The opinion of the Sixth Circuit Court of Appeals (Pet. App. A1-A25) is reported at 478 F.2d 1074.

JURISDICTION

The judgments of the court of appeals (Pet. App. A26-A28) were entered May 10, 1973. The Petition for writ of certiorari was filed July 27, 1973, and was granted on October 9, 1973. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Constitution of the United States:

Article I, Section 8, clause 8.

> The Congress shall have Power . . .
>
> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . .

Article VI, second paragraph.

> This Constitution, and the Laws of the United States which shall be made in Pursuance thereof . . . shall be the supreme Law of the Land; . . . any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

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law made by the district court; "Inj." refers to the district court's Order for Permanent Injunction.

"Kewanee" refers to Kewanee Oil Company, petitioner herein; "Bicron" refers collectively to Bicron Corporation, Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Richard W. Spurney and Harry Suscheck, respondents herein; "Bicron Corporation" refers exclusively to the corporate respondent; and "Individual Respondents" refers exclusively to the individual respondents herein.

Tenth Amendment.

The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States, respectively, or to the people.

Statutes:

35 U.S.C. § 101.

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

35 U.S.C. §102.

A person shall be entitled to a patent unless—

. . .

(b) the invention was . . . in public use . . . in this country, more than one year prior to the date of the application for patent in the United States . . .

Ohio R.C. § 1333.51(C) (1967).

No person, having obtained possession of an article representing a trade secret or access thereto with the owner's consent, shall convert such article to his own use or that of another person, or thereafter without the owner's consent make or cause to be made a copy of such article, or exhibit such article to another.

Ohio R.C. § 1333.99(E) (1967).

Whoever violates section 1333.51 of the Revised Code shall be fined not more than five thousand dollars, imprisoned not less than one nor more then ten years, or both.

QUESTION PRESENTED

Whether the Constitution and the Federal Patent Act preempt and make ineffective state laws which

protect against disclosure or use of trade secrets in breach of duties imposed by a contract or a confidential relationship.

The specific aspect of that question which is raised by the record in this case is:

Whether protection of trade secrets by limited injunctive relief against former employees acting in breach of their fiduciary duty and secrecy agreements is precluded by the United States Constitution or the federal Patent Code merely because the employer secretly used the secrets to produce products sold commercially for more than one year prior to the date of suit and thus lost the right to secure a patent on such secrets.

STATEMENT

The findings made by the district court disclose the following facts:[2]

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[2] Due to the nature of this action, the district court entered an Order Supplemental to Memorandum of Decision (App. 91) impounding the exhibits and those findings of fact and conclusions of law which contained "any naming or description of equipment, materials or procedures mentioned in the exhibits and memorandum of decision concerning the production of sodium iodide thallium activated scintillation crystals." Consistent therewith, the record of the district court was kept under seal in the court of appeals and has received the same treatment by the Clerk of this Court. (See Order of November 5, 1973.) To facilitate the presentation of this case, however, and at the request of the United States which this Court has invited to file a brief *amicus*, Kewanee has excised portions of the findings of fact consistent with the district court's Order, and has reproduced the remainder in the Appendix (App. 51-86). The entire record below, including the material excised from the findings of fact as printed, and including the transcript and exhibits in the district court, is on file with the Clerk and available to the Court.

Kewanee, through its unincorporated division, Harshaw Chemical Company ("Harshaw"), manufactures various types of industrial products. Harshaw's product line includes synthetic crystals and particularly sodium iodide thallium activated scintillation crystals, and this product forms the subject matter of this action. A scintillation crystal has a property which permits it to generate a minute particle of light when struck by ionizing radiation.[3] Harshaw's activities with respect to the growth of synthetic crystals and its experience in this area date back to about 1937 (Fdg. 1 and 5, App. 52).

Harshaw began conducting research in 1949 on scintillation crystals, such as sodium iodide thallium activated crystals, which crystals are used in radiation detectors. Harshaw was the forerunner in the growth of scintillation crystals, there being no other companies producing such crystals at that time (Fdg. 6, App. 53-54). Commencing in 1949 with the growth of a sodium iodide thallium activated crystal less than two inches in diameter, Harshaw, by means of continuing research and development, was able in 1966 to grow a 17-inch sodium iodide thallium activated crystal. In order to accomplish this task, Harshaw spent in excess of $1,000,000 on research, and employed as consultants such notable experts as Dr. Stockbarger, a pioneer in the field of crystal growth, and Dr. Hofstadter, a Nobel Prize winner in Physics (Fdg. 40, App. 61-62).

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[3] Such crystals are put to a variety of end uses, including detection of uranium ore, medical uses such as detection of malignant tumors, location of oil, and any uses where radiation detection can be employed as a counting device (Td. 204-205).

There are several companies worldwide which compete with Harshaw in the production and sale of sodium iodide thallium activated crystals. Other than Bicron Corporation, there are three such competitors in the United States, one or two in Japan, and one each in Great Britain and France. These competitors have produced and sold 13-inch diameter crystals and one such competitor has offered to sell a 16-inch diameter crystal. However, to date no company other than Harshaw has produced or sold a 17-inch diameter crystal (Fdg. 6, App. 53-54). In addition to the knowledge possessed by Harshaw's competitors, there is a substantial amount of information in the public domain relevant to the production of crystals (See (Fdg. 6, 13, 14, 22, 23, 32, 33, 34, 35, 36, 38, 40 and 73).

As an outgrowth of its research, Harshaw developed many confidential processes, procedures and manufacturing techniques which it claims are trade secrets (Fdg. 39, App. 59-61). These give it a commercial advantage over competitors who do not know or use such processes, procedures and techniques. Harshaw presented proofs in the district court that it had trade secrets in the following areas: (1) the purification of raw materials; (2) the growth of the crystals; and (3) the preparation and encapsulating of the crystal. These processes, procedures and manufacturing techniques become more critical as the size of the crystal increases (Fdg. 40, App. 61-62).

Harshaw maintained stringent precautions to protect its trade secrets, including the following: it "regularly required its employees to execute" agreements which precluded them from disclosing and us-

ing the company's trade secrets (Fdg. 104, App. 83-84); it "installed fencing bearing 'No Admittance' signs around various plant sites and maintained a security guard therein" (Fdg. 104, App. 83-84); visitors to the Laurel facility were required to sign in at the front desk and would be escorted around the plant at all times by a regular employee (Tr. 253-254); the Laurel facility conspicuously posted signs stating "Crystal Solid-State Department Employees Only, No Admittance" (Tr. 253); the Solon facility had one entrance for employees which was guarded twenty-four hours a day, and visitors were sent to the front desk where they were issued passes and escorted by an employee (Tr. 254); it posted a copy of Section 1333.51 Ohio Revised Code, which makes the theft of a trade secret a crime in Ohio (Fdg. 104, App, 83-84); and it "marked certain prints and documents with a notice of confidentiality and restricted their distribution to key employees" (Fdg. 104, App. 83-84). Bicron vigorously disputed the adequacy of these precautions and argued that the trade secrets were readily available to the public (Fdg. 105-107, App. 84-85). After carefully reviewing all of the evidence concerning Harshaw's secrecy precautions, the district court found "that not sufficient disclosure occurred so as to place the claimed trade secrets in the public domain" (Fdg. 108, App. 85).

The Individual Defendants Were Employed by Harshaw and Learned of Its Trade Secrets During that Confidential Relationship.

The findings disclose the following facts with respect to the Individual Respondents:

Hamner, an employee of Hamner Electronics Company, executed an agreement which provided in part

that he would not disclose trade secrets of the Company. Harshaw acquired control of Hamner Electronics Company in 1964 and thereafter that agreement inured to the benefit of Harshaw (Fdg. 47-48, App. 67-68). Hamner's experience with Harshaw primarily involved the various applications to which encapsulated scintillation crystals may be put and aspects relative to the sale of such products, including customer lists (Fdg. 49, App. 68).

Menefee, a physicist and mathematician, was employed by Harshaw in February 1964. During the course of his employment, Menefee executed two agreements which provided in part that he would not disclose Harshaw's confidential information. In February 1969, Menefee was promoted to Group Manager-Nuclear Detectors and Systems. In this capacity he was responsible for the development of new detector assemblies employing scintillation crystals, which gave him access to and experience in all phases of crystal production including synthesis and purification of raw materials, crystal growth, and preparation and encapsulation of finished crystals (Fdg. 52, App. 69-70).

Novak was employed by Harshaw in April 1962. During the course of his employment, Novak executed two agreements which provided in part that he would not disclose Harshaw's confidential information. Novak was a technician in the Crystal Canning Department and for six years was engaged in part in the canning and encapsulation of scintillation crystals. He was a lead man in the department for at least six months and in this capacity was responsible for quality control and the teaching of canning and encapsu-

lation techniques to other employees whom he supervised (Fdg. 54, App. 70-71).

Richert, a chemist, was employed by Harshaw in February 1962. In consideration of his employment, Richert executed an agreement which provided in part that he would not disclose the confidential information of Harshaw. Richert worked in the purification department and was actively involved in the preparation of raw materials for crystal growth, as well as the preparation of certain bonding materials used in the encapsulation of crystals (Fdg. 57, App. 71-72). He received copies of Harshaw's confidential purification procedures and he understood he was not to disclose their content to anyone (Fdg. 41, App. 62).

Spurney was employed by Harshaw in May 1961. In consideration of his employment, Spurney executed an agreement which provided in part that he would not disclose Harshaw's confidential information. Spurney was primarily involved with the growth of crystals, including the "doping" of raw materials and the programming of growth furnaces. Additionally, he was also responsible for reworking platinum crucibles used in the growth of synthetic crystals (Fdg. 59-60, App. 72-73).

Suscheck was employed by Harshaw in April 1963. During the course of his employment, Suscheck executed two agreements which provided in part that he would not disclose Harshaw's confidential information. For the first three years of his employment, Suscheck worked in the engineering department doing design work on radiation detectors. Thereafter, he was elevated to "Production Manager of Scintilla-

tion Detectors" and given production responsibility. In this capacity he supervised, either directly or indirectly, approximately thirty-five employees. Among other things, he was responsible for the encapsulation of scintillation crystals, including the design of containers therefor. Suscheck did the engineering work on the design of finished units, and he determined what units were to come out of what crystals, which function was significant in determining the profit or loss of the operation (Fdg. 62, App. 73-74).

Prior to joining Harshaw, except for the academic training of Richert and Menefee, none of the individuals had any experience with respect to the purification of raw materials, growth or preparation and encapsulation of scintillation crystals. However, each individual acquired experience in one or more of these areas and the trade secrets associated therewith while employed by Harshaw (Fdg. 41-42, App. 62-63; Fdg. 63, App. 74; Fdg. 88-92, App. 81).

Each of the individuals occupied positions of trust and confidence with Harshaw, and for this reason were given access to the various facilities where the secret operations relative to his action were conducted (Fdg. 64, App. 74-75). On the basis of the evidence before it, the district court concluded as a matter of law that "[t]he individual defendants held positions of trust while at Harshaw, thereby creating a confidential relationship, and they owed a duty of loyalty and fidelity to their employer" (Con. 4, App. 87-88).

Spurney resigned in December 1966 to accept a position with General Electric. Richert resigned in August 1968 to accept a teaching position at John

Carroll University. Hamner tendered his resignation in July 1969, and terminated his employment as of August 15, 1969. He gave as a reason for resigning his desire to attend the New York School of Finance in order to learn how to manage his stock portfolio. Novak summarily resigned and left Harshaw on September 12, 1969. Menefee tendered his resignation in June 1969, and terminated his employment as of July 31, 1969. He indicated that he was dissatisfied and was resigning in order to engage in private nuclear consulting activities. Suscheck tendered his resignation in early August 1969 and terminated his employment as of August 15, 1969. He stated that his resignation was prompted by the need to devote more time to a plastics company in which he had an interest (Fdg. 65, App. 75). Even though Hamner, Menefee and Suscheck knew when they terminated their employment that they were in the process of forming a competing business, this information was not revealed to Harshaw (Fdg. 83, App. 78-79).

Bicron Corporation Was Formed by the Individual Defendants to Compete with Harshaw, Including Use of Its Trade Secrets.

While still employed by Harshaw, Menefee and Hamner discussed the possibility of forming their own business. Originally they considered some type of consultant work, but it was felt that the time required to establish such a business was lengthy. In order to have a going business in the shortest period of time, they decided to manufacture scintillation detectors using sodium iodide thallium activated crystals (Fdg. 67, App. 75-76; Tr. 1078-1079).

Menefee approached Suscheck in mid June 1969, and asked him to join the proposed business venture

(Fdg. 68, App. 76; Tr. 1131). Realizing that someone with experience in the crystal growth area (furnace operation) would be required, Menefee also contacted Spurney (Fdg. 69, App. 76; Tr. 1079-1080). On June 20, 1969, Hamner, Menefee, Spurney and Suscheck met to discuss the formation of a corporation which would compete with Harshaw in the manufacture of sodium iodide thallium activated crystals (Fdg. 71, App. 76). Realizing that a chemist would be required to purify raw materials, Menefee contacted Richert in late June or early July and the latter indicated that he would be willing to act in a consulting capacity with respect to the purification of sodium iodide (Fdg. 70, App. 76). On July 2, 1969, Menefee, Suscheck and Spurney met with Hamner's attorney in New Jersey to discuss the formation of a new corporation (Fdg. 72, App. 72). On August 4, 1969, Spurney contacted Englehart Industries on behalf of the newly formed business and requested price quotations on a seventeen inch diameter platinum crucible (Fdg. 74, App. 77). Hamner, Menefee and Suscheck were employees of Harshaw, when the foregoing activities transpired (Fdg. 76, App. 77). On or about August 1, 1969, Suscheck, while still in the employ of Harshaw, prepared a drawing of the proposed Bicron Plant (Fdg. 84, App. 79).

On August 16, 1969, Hamner, Menefee, Spurney and Suscheck concurrently executed an agreement forming Bicron Corporation. Pursuant to the terms of the agreement, the four individuals comprised the Board of Directors, Hamner being Chairman of the Board and President, and Menefee being Vice President and Secretary. The agreement expressly recognized the " 'special abilities' " of the parties and

included non-competition and non-disclosure provisions (Fdg. 78, App. 77-78). The Individual Defendants associated themselves together because of the special abilities which each possessed with respect to complementary facets of the scintillation crystal business. In seeking financing for his new business, Hamner represented to an investment firm that the product which Bicron Corporation planned to manufacture was highly technical, but that some of its personnel had worked at Harshaw and possessed the necessary skills to make the product. For example, Spurney was asked to join Bicron Corporation because he was an expert crystal grower; Richert was selected because he was an expert in purifying materials needed for crystal growth (Fdg. 83, App. 78-79).

Menefee again contacted Richert in the early part of September 1969, and the latter agreed to act as a consultant to Bicron Corporation and devise a procedure for the purification of sodium iodide (Fdg. 80, App. 78). Richert claims to have written the purification procedure in approximately 100 hours based upon library research and this procedure was delivered to Bicron during the first part of December 1969 (Fdg. 57, App. 71-72).

The Bicron Plant was completed in the latter part of December 1969, or early January 1970, and operations were shifted there from Menefee's house. During the first run the crucible was damaged and forwarded in early March 1970 for repairs. The crucible was returned to Bicron and a 17-inch diameter crystal was grown and placed in the annealing furnace by mid-April 1970 (Fdg. 82, App. 78).

It took Harshaw over sixteen years to perfect its processes, procedures and manufacturing techniques to the level of technology required to produce a 17-inch sodium iodide thallium activated crystal. During this period Harshaw expended great sums of money, employed some of the world's foremost consultants and has become the recognized leader in the scintillation crystal industry. Although Harshaw has several competitors around the world, none has been able to produce a 17-inch diameter sodium iodide thallium activated crystal. Bicron Corporation, however, with its nucleus of former Harshaw employees, was able in approximately nine months to construct a highly complex plant, design and assemble specialized equipment, purify the material and then grow and place in the annealing furnace a 17-inch diameter sodium iodide thallium activated crystal. In view of this evidence, the district court concluded "that there is an imminent danger of disclosure of plaintiff's trade secrets to Bicron and the use of these trade secrets by Bicron" (Con. 6, App. 89).

The Courts below Both Sustained Kewanee's Right to Relief under Ohio Trade Secret Law

On April 17, 1970, Kewanee filed its Complaint (App. 5-27) against Bicron in the United States District Court for the Northern District of Ohio. On that day the district court granted a Temporary Restraining Order (App. 28-31) enjoining Bicron from disclosing and using Kewanee's trade secrets. The Temporary Restraining Order was extended to permit a full hearing on Kewanee's application for a preliminary injunction (App. 32). By agreement of

the parties, the hearing was consolidated with the action on the merits as provided for in Rule 65(a)(2) of the Federal Rules of Civil Procedure. A lengthy trial followed consuming approximately ten trial days, during which the district court heard the testimony of 16 witnesses and received in evidence 105 exhibits. On November 25, 1970, the district court entered its decision, which included 110 findings of fact (App. 51-86) and 8 conclusions of law (App. 86-90). The district court applied Ohio trade secret law "in determining which processes, procedures and mechanical techniques . . . are trade secrets and those which are not" (Con. 5, App. 88-89). The district court held that Kewanee had a protectable property right in twenty of its forty claimed trade secrets in suit. It further concluded that Kewanee failed to establish that the remaining twenty processes, procedures and manufacturing techniques were in fact trade secrets. Concurrently therewith, the district court entered an Order for Permanent Injunction (App. 92-94) which enjoined Bicron from disclosing and using the twenty trade secrets unless they became publicly known.

Kewanee appealed from the decision of the district court, contending that all forty claimed trade secrets should have been protected, and Bicron cross-appealed maintaining that none of the alleged trade secrets should have been protected (478 F.2d at 1076; Pet. App. A2). The court of appeals, "[a]fter careful consideration of the entire record," held that "the findings of fact of the District Judge are not clearly erroneous within the meaning of Rule 52, Federal Rules of Civil Procedure, 28 U.S.C., and the District Judge properly applied the Ohio law relating to trade

secrets" (478 F.2d at 1077; Pet. App. A5). In so holding the court of appeals stated:

> "On this record, as a whole, it appears clear to us, as it did to the District Court, that the individual defendants used the information obtained during their employment by Harshaw for the benefit of Bicron. There can be no question on this record but what these individual defendants appropriated, to the benefit of Bicron, Harshaw's secrets, processes, procedures and manufacturing techniques." (478 F.2d at 1076-1077; Pet. App. A3).

The court of appeals then concluded that it would "affirm the judgment of the District Court" (478 F.2d at 1077-1078; Pet. App. A5), but for its belief that under the facts of this case the trade secret laws of Ohio are in "direct conflict with the Patent Laws" of the United States (478 F.2d at 1086; Pet. App. A25). The court of appeals therefore reversed and remanded the case to the district court for dismissal of the complaint (478 F.2d at 1087; Pet. App. A25).

SUMMARY OF ARGUMENT

The district court granted a narrow injunction which prevented Bicron from using or disclosing the twenty items found to be trade secrets. The injunction expires by its own terms when any secret is subsequently published by Kewanee or by others, or disclosed to Bicron by someone having the right to do so. Moreover, the injunction does not preclude Bicron from competing with Kewanee in the manufacture and sale of scintillation crystals.

Under the circumstances, the injunction did not give Kewanee the equivalent of a patent monopoly. The essence of a patent monopoly is the power to ex-

clude anyone in the United States from making, using or selling the subject matter of the patented invention, whether or not he develops it independently. Here the injunction ran only against Bicron and did not prevent anyone else from doing anything, nor did it prevent Bicron from making, using or selling sodium iodide thallium activated scintillation crystals. It left Bicron free to use any Kewanee secret developed independently by others and thereafter published or disclosed to it.

The court of appeals unanimously affirmed the district court's finding that the twenty processes in issue were adequately maintained in secrecy and had not become a part of the public domain. The Sixth Circuit's holding that the secret use of Kewanee's processes for over a year placed the secrets in the public domain is not tenable, for the function of 35 U.S.C. § 102 (b) is solely to determine what has been "used" so that it is not entitled to the 17-year statutory monopoly of the federal patent laws; it does not purport to determine what is published for any other purpose.

Sears, Roebuck & Co. v. *Stiffel Co.*, 376 U.S. 225 (1964), *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), and *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), are all inapplicable. In those cases protection was sought for products, not processes, and the products were clearly in the public domain, having been fully disclosed in patents and by their public sale. Moreover, in *Sears* and *Compco* respondents were seeking the full equivalent of a patent monopoly, in that they claimed that no one in the United States, whether or not he had developed his own product independently, could manufacture an identical product because the configuration of the thing

itself was said to denote respondents as its source. Kewanee seeks no such monopoly protection.

The interest of the federal patent statutes in promoting new inventions by rewarding inventors is different from, and does not conflict with, Ohio's policy of protecting its citizens against fraud, theft, dishonesty and breaches of contract or fiduciary duty. In our federal system a very persuasive showing must be made before unstated radiations of a federal statute are found to displace long standing state common law implementing its acknowledged police powers.

Decisions of this Court have repeatedly held that an inventor has the choice of keeping his invention secret while attempting to protect it pursuant to the state law of trade secrets, or of disclosing it in a patent application in the hope of securing a 17-year statutory monopoly. Enactment of a statute carries with it the construction put on predecessor statutes with similar wording, and the passage in 1952 of the Patent Code must be taken to have accepted these interpretations. In any event, this Court has always been slow to overrule a considered line of decision existing over many years.

The Sixth Circuit's holding that only those trade secrets are preempted which are patentable subject matter under 35 U.S.C. § 101, if they have been in "public use" under 35 U.S.C. § 102(b) for over a year, operates capriciously and implements no visible societal policy. Why should confidential customer lists which are not patentable be protectable, while formulae or industrial processes are not? This Court has never favored construction of a statute to achieve capricious or illogical results.

Granting limited protection to trade secrets is also fully consistent with the antitrust laws, for section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45, and sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1 and 2, have both been interpreted to make unlawful the theft of trade secrets in varying factual circumstances.

Kewanee's position here is also confirmed by the fact that many federal statutes existed which specifically authorized trade secret protection before the passage of the 1952 Patent Code. Many other federal statutes specifically authorizing the protection of trade secrets were passed thereafter. The interpretation of the Patent Code adopted by the Sixth Circuit would so limit trade secret protection as to amount to an implied repeal of all of these provisions; yet repeals by implication have never been favored by this Court. That rule is particularly applicable here since the Patent Code contains no words of express repeal while the statutes that would be rendered largely nugatory expressly authorize protection of trade secrets. Moreover, all of these statutes are properly considered by the Court in interpreting the overall intent of Congress.

Finally, a substantial number of commercial transactions has been effected in reliance upon the continuing validity of the law of trade secrets and the ability of a court to give limited protection to trade secrets in appropriate circumstances. This Court should be extremely reluctant to unsettle all of these transactions. The question is more properly one for Congress.

ARGUMENT

I. INTRODUCTION:

THE BASIS AND NATURE OF TRADE SECRET LAW

The Ohio Law of Trade Secrets Does Not Foster Monopoly; It Merely Provides a Remedy for Breaches of Contract and Trust.

The general law of trade secrets, effective in nearly all of the States,[4] requires that the party seeking trade secret protection establish by a preponderance of the evidence that: (1) the items for which protection is sought, whether patentable or not, constitute proper matter for trade secret coverage; (2) the party against whom relief is sought has either violated or threatened to violate an express agreement or his fiduciary duty not to disclose or use the secrets; and (3) there has been a substantial element of secrecy. Upon such proof, the party seeking relief will be granted protection against the wrongful disclosure and use of the trade secrets, but will not be protected against their legitimate discovery. Moreover, the relief afforded the trade secret owner will not be so broad as to enjoin competition. Each of these points will be discussed in greater detail below.

The frequently stated definition of a trade secret is set forth in 4 RESTATEMENT OF TORTS § 757, comment b (1939), which is printed at Pet. App. A28-A29. Ohio law, like that of many other States, generally follows Section 757. *B. F. Goodrich* v. *Wohlgemuth,* 117 Ohio App. 493, 498, 192 N.E.2d 99, 104 (1963). That definition provides in part that "a process of manufacturing" such as that involved in the present action, constitutes protectable subject matter.

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[4] See generallly, Milgrim, TRADE SECRETS, Chapters 2, 3, 4 and 5 (1973); 2 Callman, UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES 343 *et seq.* (3d ed. 1968).

Ohio law is in accord with the general law of trade secrets. It applies only against those who have entered into an express agreement to hold the secret in confidence or those who are in a fiduciary relationship with the trade secret owner. *Seifried* v. *Maycox,* 14 Ohio Dec. 536, 539 (Super. Ct. 1904), following *Stone* v. *Goss,* 65 N.J. Eq. 756, 55 A. 736 (Ct. Err. & App. 1903). While it is settled in Ohio and elsewhere that the employer-employee relationship carries with it such a relationship, Ohio courts have been loathe to find a fiduciary relationship where it is not clear from the facts that one existed. See, *e.g., Grob Plating Co.* v. *Kent-Owens Mach. Co.,* 10 Ohio L. Abs. 367 (Ct. App. 1931). Relief is not granted if there is no breach of contract or fiduciary obligattion. As Judge Taft held in *Cincinnati Bell Foundry Co.* v. *Dodds,* 19 Weekly L. Bull. 84, 10 Ohio Dec. Reprint 154, 154-155 (Super. Ct. 1887), while "he who discovers and keeps secret a process of manufacture, whether a proper subject for a patent or not, has a property in it which a court of equity will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons," such a person *"has not an exclusive right to it as against the public or against those who, in good faith, acquire knowledge of it."* (Emphasis added.)

While a trade secret is not destroyed by disclosure to such of the proprietor's "employes to whom it is necessary to communicate the secret, in order that he may use them to advantage," *National Tube Co.* v. *Eastern Tube Co., supra,* 3 Ohio C.C.R. (n.s.) at 462, and *B. F. Goodrich* v. *Wohlgemuth, supra,* 117 Ohio App. at 499-500, 192 N.E.2d at 104, and while access to the premises, where the secret processes are used, by visitors, customers, suppliers or others will not

destroy secrecy if such secrets are not thereby revealed or if such persons do not understand the significance of what they saw, *Cincinnati Bell Foundry Co.* v. *Dodds, supra,* 19 Weekly L. Bull. at 86, 10 Ohio Dec. Reprint at 157, there must still be a substantial element of secrecy:

> "It would be a violation of every right of the employe of a manufacturer to prevent the former from using, in a business of his own, knowledge which he acquired in the employ of the latter, when he might have acquired such knowledge in the employ of other manufacturers." *Cincinnati Bell Foundry Co.* v. *Dodds, supra,* 19 Weekly L. Bull. at 84, 10 Ohio Dec. Reprint at 155.

Accordingly, the Ohio Supreme Court has held that a former employee cannot be enjoined from soliciting customers of his former employer when the identity of such customers was in no wise a secret. *Curry* v. *Marquart,* 133 Ohio St. 77, 11 N.E.2d 868 (1937).

Ohio law recognizes that a trade secret does not have the permanence of a patent. The proposition is clearly put in *National Tube Co.* v. *Eastern Tube Co.,* 3 Ohio C.C.R. (n.s.) 459, 462 (Cir. Ct. 1902), *aff'd,* 69 Ohio St. 560, 70 N.E. 1127 (1903):

> "A trade secret is a plan or process, tool, mechanism, or compound, known only to its owner and those of his employees to whom it is necessary to confide it, in order to apply it to the uses for which it is intended. It is not protected by patent, for the secret then is made public, and the inventor is protected by letters patent from infringement thereof; while, *as soon as anyone fairly and honestly discovers a trade secret, either by examination of the manufactured products sold or offered for sale to the public, or in any*

> *other honest way, that person discovering it has full right to use the same.* That is the risk the owner takes, and if he would have further protection, he must seek it in a patent." (Emphasis added.)

Finally, except in the most aggravated circumstances, even upon the finding of an appropriation of trade secrets in breach of a fiduciary duty, the Ohio courts do not enjoin competition by the employee; they only enjoin the use or disclosure of such secrets. *B. F. Goodrich Co.* v. *Wohlgemuth, supra,* 117 Ohio App. at 500, 192 N.E.2d at 105, is typical; there the court enjoined the former employee's future improper disclosure of Goodrich's trade secrets in the manufacture of space suits, but refused to exclude him from the space suit business, stating:

> "We have no doubt that Wohlgemuth had the right to take employment in a competitive business, and to use his knowledge (other than trade secrets) and experience, for the benefit of his new employer, ..."

The Sixth Circuit also recognizes this to be the law of Ohio, for in *W. R. Grace & Co.* v. *Hargadine,* 392 F.2d 9, 20 (6th Cir. 1968), it said in a case in which it affirmed a substantial damage award in view of defendants' appropriation of plaintiff's trade secrets:

> "And defendants have an undoubted right to compete against plaintiff Grace so long as they do not use Grace's assets in doing so."

II. THE PATENT CODE (35 U.S.C.) DOES NOT PREEMPT STATE TRADE SECRET LAW AS APPLIED IN THIS CASE.

The district court carefully reviewed the testimony and exhibits adduced at the trial of this action. On

the basis of the evidence, it made 110 findings of fact and 8 conclusions of law. The findings of fact analyzed Kewanee's claimed trade secrets and the district court painstakingly separated those which were protectable under the applicable law from those which were not subject to protection (Fdg. 94-102, App. 82-83). The district court made detailed factual findings with respect to Bicron's claim that Kewanee had been lax in securing its secrets (Fdg. 105-107, App. 84-85), but ultimately found that "not sufficient disclosure occurred so as to place the claimed trade secrets in the public domain" (Fdg. 108, App. 85). Both parties appealed, and each urged the court of appeals to review that part of the district court's findings and conclusions which had held against it on the trade secret issue. In that respect the court of appeals wholly affirmed the district court,[5] stating:

> "Suffice it to say that the District Judge fully considered all of the evidence offered, and that the alleged errors are based upon the appellant's and cross-appellants' disagreement with the trial court's evaluation of the credibility of the witnesses and the weight of the evidence. It is not for this Court to reconsider the credibility of the witnesses or to reweigh the evidence.
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> * * *
>
> "If only the issues already discussed had been presented to this Court we would be required

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[5] The Sixth Circuit apparently regarded the situation as similar to that which it faced in *W. R. Grace & Co.* v. *Hargadine, supra,* 392 F. 2d at 14-15:

> "Defendants also point to a great deal of evidence which may be regarded as proof of laxity in security precautions on the part of DuBois prior to the Grace purchase, ... As we view this record, the testimony presented a conflict of evidence on the trade secrets issue which was appropriate for jury resolution."

to affirm the judgment of the District Court." (478 F.2d at 1077-78; Pet. App. A5)

This Court has long recognized what has come to be known as the "two court rule." Under this doctrine, this Court will not "undertake to review concurrent findings of fact by two courts below in the absence of a very obvious and exceptional showing of error." *Graver Tank & Mfg. Co.* v. *Linde Air Products Co.*, 336 U.S. 271, 275 (1949); *Comstock* v. *Group of Institutional Investors*, 335 U.S. 211, 214 (1948). Both courts below concurred with respect to the findings of fact. Accordingly, these findings should be accepted as correct and controlling here.

A. The Sixth Circuit Improperly Found That the Injunction Permitted Kewanee to Monopolize the Public Domain.

The reasoning of the Sixth Circuit proceeded essentially as follows: The policy of the Patent Code [6] is to prevent persons from monopolizing any part of the public domain except pursuant to a federal statutory patent grant. A use which would be a statutory bar to the issuance of a patent under 35 U.S.C. § 102(b) makes that use a part of the public domain. On this basis, the court of appeals came to the conclusion that the Patent Code [7] preempts this area of the law so that

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[6] The term "Patent Code" will be used in this Brief to refer to "An Act to revise and codify the laws relating to patents and the Patent Office, and to enact into law title 35 of the United States Code entitled 'Patents,'" and its complete citation is Public Law 593, 82nd Congress, 2nd Session, Chapter 950, 66 Stat. 792, approved July 19, 1952.

[7] The Sixth Circuit did not suggest that a state's limited protection of trade secrets would be repugnant to Art. I, § 8, Cl. 8 of the Constitution, standing alone and apart from the Patent Code. This Court's subsequent decision in *Goldstein* v. *California*,

courts may not grant trade secret protection to processes the use of which would fall within section 102(b) because otherwise the owner of the process would be permitted to monopolize the public domain other than through a statutory patent grant (478 F.2d at 1086; Pet. App. A24-A25). This conclusion fails for each of the two reasons discussed below.

1. The injunction did not grant to Kewanee the common law equivalent of a patent monopoly.

Kewanee did not seek a monopoly, or anything resembling a monopoly. It sought no protection against anyone other than Bicron. The essence of a patent monopoly is that the patentee has the right to exclude *all others* from making, using or selling his patented product *even against one who has independently developed an infringing product.* As this Court stated in *United States* v. *Berdan Fire-Arms Mfg. Co.,* 156 U.S. 552, 566 (1895):

> "Nor would it be a defense to the action that such person had, subsequent to Berdan's invention, *and without knowledge thereof,* devised the contrivance which he was using. He would be in the attitude of a subsequent inventor, and *the prior inventor is the one who, under the statutes, is entitled to the monopoly.*" (Emphasis added.)

Kewanee did not receive the equivalent of a patent monopoly, for neither Ohio law nor the injunction protects Kewanee against persons who independently

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412 U.S. 546, 552-558 (1973) establishes, *a fortiori,* that there is no repugnance. See also *Livingston* v. *Van Ingen,* 9 Johns. 507, 550, 581 (N.Y. 1812) and Bugbee, *The Genesis of American Patent and Copyright Law,* pp. 90-102, esp. at 102 (Public Affairs Press 1967).

discover its secrets. See *Cincinnati Bell Foundry Co.* v. *Dodds, supra,* 19 Weekly L. Bull. at 84, 10 Ohio Dec. Reprint at 154-55; *Water Services, Inc.* v. *Tesco Chemicals, Inc.,* 410 F.2d 163, 172 (5th Cir. 1969). The protection of the injunction was limited to Bicron Corporation and the Individual Respondents, and did not affect any other person.

Moreover, unlike a patent monopoly, neither the injunction nor Ohio law gives Kewanee rights for any fixed period. The injunction expires by its own terms as to any secret upon the happening of any of the following events:

—Release to the public of the trade secret by plaintiff;

—Issuance of a patent disclosing the trade secret;

—If the trade secret in any other way becomes generally available to the public;

—If the trade secret in any other way becomes generally available to members of the industry; or

—Acquisition by defendants of the trade secret from any source having the legal right to convey such information (Inj., para. D, App. 94).

Finally, the injunction precluded only the use and disclosure of Kewanee's secrets. Bicron was left free to make, use and sell sodium iodide thallium activated scintillation crystals in competition with Kewanee, as are all others in the world. The district court stated in conclusion 7 (App. 89-90):

"Indeed it is inevitable that some of the knowledge acquired while in the former employment should be made available to the new employer, and courts will not deprive the employee of the

> right to use the skill he developed through the years."

Thus, Kewanee did not receive the common law equivalent of a patent monopoly nor was it protected from competition.

2. A "public use" under 35 U.S.C. § 102(b) cannot be equated with the term "public domain."

The position of the Sixth Circuit is that section 102(b) determines for all purposes what is in the public domain. But this is not what section 102(b) says. It provides that no patent may issue if its subject was "in public use" for more than one year before a patent is applied for. But, as here, a process may be in "public use," and thus bar the issuance of a patent, without being in the public domain. This is the essence of a trade secret. It is in use, but it is not known to the public, and thus is not in the public domain. As Judge Rich said in *Mine Safety Appliances Co.* v. *Electric Storage Battery Co.*, 405 F.2d 901, 902 n.2 (C.C.P.A. 1969):

> "[Appellee] also argues, as is all too prevalent, that the *patent laws* put things *into* the public domain when patents expire. Patent laws function only to keep things *out* of the public domain temporarily. They have nothing to do with putting things into it. They say nothing about right to copy *or* right to use, they speak only in terms of right to *exclude.*" (Emphasis in original.)

Patent law has evolved so that, today, an admittedly private and secret use, if it has been a commercial use, is nevertheless held to be a "public use" within the meaning of section 102(b), the policy of which is to preclude such a user from obtaining a federally

protected 17-year statutory monopoly,[8] good against all persons. The leading case on this point is *Metallizing Engineering Co.* v. *Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516 (2d Cir. 1946), certiorari denied, 328 U.S. 840 (1946). The panel in that case consisted of the two Hands and Charles Clark, later Chief Judge; the opinion was by Judge Learned Hand. Although the application for the patent in suit was filed on August 6, 1942, the district court found that the inventor had used the patented process more than one year prior to that date, and that his " 'main purpose in his use of the process prior to August 6, 1941 and especially in respect to all jobs for owners not known to him, was commercial, . . .' " (153 F.2d at 517). It also found, however, "that the use was not public but secret" (153 F.2d at 518). The question for decision before the Second Circuit was, then, whether a secret commercial use was nevertheless a "public use" within the meaning of section 102(b). Judge Hand carefully analyzed prior decisions, including many decisions of this Court, and concluded that such a secret use was nevertheless a "public use." He held (153 F.2d at 520) that:

> ". . . it is a condition *upon an inventor's right to a patent* that he shall not exploit his discovery competitively after it is ready for patenting; he must content himself with either secrecy, or legal monopoly. It is true that for the limited period of two years he was allowed to do so, possibly in order to give him time to prepare an application; and even that has been recently cut down by half. But if he goes beyond that period of

[8] Of course a "public use" under section 102(b) could also, depending on the facts, be so open and notorious as to result in a finding that the use was published for all purposes.

probation, he forfeits his right *regardless of how little the public may have learned about the invention;* . . .

* * *

". . . *it is part of the consideration for a patent* that the public shall as soon as possible begin to enjoy the disclosure." (Emphasis added.)

This decision is significant for two reasons. First, it shows that a section 102(b) finding of "public use" does not establish what has been published as a matter of fact and for all other purposes, for something the court conceded was secret was found to be "public" for purposes of section 102(b). Secondly, the decision shows that the disability which is brought about upon a finding of "public use" is limited to the forfeiture of the user's "right to a patent." "Public" as used in section 102(b) is a specialized term of art having significance only for purposes of determining the right to a federal statutory monopoly and not otherwise.[9] See *Goldstein* v. *California,* 412 U.S. 546, 570 n. 28 (1973).

Judge Hand's analysis of this Court's decisions was surely correct, for it would hardly be possible to argue seriously that the "public use" of corset stays in a corset worn by a lady friend of the inventor which barred a patent in *Egbert* v. *Lippmann,* 104 U.S. 333, 335 (1881), thereby placed the corset stays within the

[9] The correctness of this proposition is confirmed by looking at the converse of the situation under consideration, namely, an open, notorious and fully publicized *experimental use* by the inventor. Trade secret protection would be denied to a process which was thus publicly used, although that same public use would be found not "public" under § 102(b) because of its experimental nature. *Elizabeth* v. *Pavement Co.,* 97 U.S. 126, 135-37 (1877); *Electric Storage Battery Co.* v. *Shimadzu,* 307 U.S. 5, 20 (1939).

public domain. And in *Hall* v. *Macneale,* 107 U.S. 90, 96-97 (1882), a patented connection between the door and casing of safes was found to be in "public use" barring a patent even though the details thereof "were, it is true, hidden from view, after the safes were completed, and it required a destruction of the safes to bring them into view." Would this Court construe that holding to mean that the safe construction was thereby in the public domain, in a suit against a former employee who appropriated his employer's secret blueprints of the construction and did not learn of the construction through dismantling the safe?

Judge Hand's decision represents the accepted interpretation of "public use" under § 102(b).[10] As the Sixth Circuit wrote in *Huszar* v. *Cincinnati Chemical Works,* 172 F.2d 6, 10 (6th Cir. 1949):

> "It has at times been thought that a use is not public if, from an examination of the product, neither the process nor the machine by which the product was made could be understood by the art and contribute to its development. All this is now water over the dam. In the meticulous study made by Judge Learned Hand in Metallizing Engineering Co., Inc. v. Kenyon Bearing & Auto Parts Co., Inc., 2 Cir., 153 F.2d 516, the course of adjudication is charted from the early days to the present, and the conclusion soundly reached that the inventor's right to a patent is conditioned upon refraining from exploiting his discovery competitively after the invention is ready for patenting; . . . regardless of how little

[10] The doctrine established in the *Metallizing* case has been adopted in other circuits. See *Pickering* v. *Holman,* 459 F. 2d 403, 406 (9th Cir. 1972); *Soffron* v. *S. W. Lovell & Co.,* 246 F. 2d 769, 770-72 (1st Cir. 1957); *U. S. Chemical Corp.* v. *Plastic Glass Corp.,* 243 F. 2d 892, 894 (3d Cir. 1957).

> the public may have learned about the invention. We agree with this conclusion and our own decisions, notably Macbeth-Evans Glass Co. v. Gen. Elec. Co., 6 Cir., 246 F. 695, support it."

Current law is accurately summarized in *Solo Cup* v. *Paper Mach. Corp.*, 240 F. Supp. 126, 130 (E.D. Wis. 1965):

> ". . . it is well settled that the commercial exploitation of a secret process or a machine maintained in secrecy, by the sale of its product constitutes a public use under § 102(b)."

It follows that a use may be "public" within section 102(b) and also secret. Thus the determination that there has been a "public use," though important under the patent law, has no relationship to the question whether a process has been kept secret for purposes of the application of a state's trade secret law.

B. Sears, Compco and Lear All Support the Conclusion That the Patent Code Precludes Protection Under State Law Only of Things Which as a Matter of Fact, Are Known to or Readily Available to the Public.

The Sixth Circuit thought that its decision was compelled by this Court's opinions in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964), *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) and *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969). In fact, however, those cases are wholly consistent with Kewanee's position here. In those cases this Court held that state common law could not be relied upon to give a monopoly over products in general circulation which were fully disclosed both by examination of the products involved which had been publicly sold, and by patents which had issued on those products. In all

three cases, therefore, the subject matter for which state law protection was sought was clearly and admittedly in the public domain in the fullest *factual* sense of that term. This is not the case in the present action.

In *Sears,* the subject matter for which protection was sought under the unfair competition law of Illinois was a pole lamp. The sale of the pole lamp had fully disclosed every aspect of its design. Moreover, all of the details of the lamp were presumably fully disclosed to the world through the "design and mechanical patents on" the lamp which had been issued to respondent (376 U.S. at 225).

In *Compco,* protection under the Illinois law of unfair competition was sought for the design of a fluorescent lighting fixture. The lighting fixture had, however, been freely sold in commerce and its design was fully disclosed to anyone who made a simple inspection of it. In addition, the design of the fixture was necessarily fully disclosed in the design patent which issued to respondent on the fixture, the function of patents being, of course, the "full disclosure for the benefit of the public of the manner of making and using the invention." *Scott Paper Co.* v. *Marcalus Mfg. Co.,* 326 U.S. 249, 255 (1945).

Similarly, in *Lear,* with respect to the period of time following the issuance of Lear's patent in 1960, which is the only period with respect to which this Court rendered a decision (395 U.S. at 674-675), the subject matter for which Adkins was seeking payment without putting his patent in issue was, by definition, fully and completely disclosed in that patent. Presumably, it was also fully disclosed by the sale of the gyroscopes for many years prior to 1960 by Lear, Inc.

Accordingly, in each of the three cases the plaintiff was seeking protection or tribute for an article which was admittedly in the public domain and the decisions can be understod as dealing only with published ideas —ideas in general circulation. As Mr. Justice Harlan, writing for the Court in *Lear, supra,* 395 U.S. at 668, stated:

> "On the other hand, federal law requires that all ideas *in general circulation* be dedicated to the common good unless they are protected by a valid patent. [Citing *Sears* and *Compco*]." (Emphasis added.)

In both *Sears* and *Compco* the plaintiff's position was, quite literally, that it was entitled to a *perpetual monopoly* over an article of commerce in the public domain.

> "The judgment below . . . gave Stiffel the equivalent of a patent monopoly on its unpatented lamp." *Sears, Roebuck & Co.* v. *Stiffel, supra,* 376 U.S. at 233.

This followed because in both *Sears* and *Compco* the features which were said to give the product secondary meaning, and entitle plaintiffs to common law protection, resided in the very configuration of the product itself. According to the plaintiffs in those cases, no one could ever have manufactured an identical pole lamp, even if it were developed independently of the Stiffel pole lamp, because the configuration of the lamp was said to identify Stiffel as its source. No one could manufacture an identical lighting fixture, even if it were developed independently of the Day-Brite lighting fixture, because the configuration of the fixture was said to denote Day-Brite as its source. See *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216, 223 (2d Cir. 1971).

In *Lear,* plaintiff's contention was not quite so expansive, but he was claiming full monopoly tribute from his licensee without having to establish that his alleged invention was in fact a patentable invention which provided valid consideration for the patent monopoly.

The decisions in those cases were, in Kewanee's view, fully correct and it does not urge this Court to qualify them in any way. They do not, however, reach the question involved in this case. For here two courts below have held that the secrets which Kewanee desires to protect, and which were given only limited protection by the injunction, were adequately kept secret, were not in general circulation and were not part of the public domain.[11] Indeed, even Mr. Justice Black,

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[11] The one alleged secret (Secret (1)(e) listed in Fdg. 39 at App. 59; see Brief of Respondents in Opposition, p. 8, note 10) as to which plaintiff had sought patent protection, and abandoned its application after it had been allowed, was found by both courts below not to be a protectable trade secret and no relief was awarded as to it (Paragraph A. (1) of Order for Permanent Injunction when read with Fidings 94 and 39, App. 82 and 59-61). Accordingly, while filing a patent application would not seem to waive the right to trade secret protection (since patent applications, both pending, 35 U.S.C. § 122 and 37 C.F.R. § 1.14(a), and abandoned, 37 C.F.R. § 1.14(b) and *Sears* v. *Gottschalk*, 178 U.S.P.Q. 33 (E.D. Va. 1973), are maintained in confidence in the Patent Office), determination of the effect of filing an application for United States Letters Patent on trade secret protection is not raised by this record. It is believed that the alleged admission attributed to counsel in 478 F. 2d at 1078, second column, last full paragraph, was derived from a statement of counsel relating to the above situation only, which, in fact, went no further than, and was based on, testimony at Tr. 1264-1267. The Clerk of the Sixth Circuit has advised that there was no recordation of oral argument below. Certainly, Kewanee did not contend or concede below, just as it does not contend or concede here, that a trade secret proprietor is entitled to a "monopoly" for any period at all, let alone for longer than 17 years.

dissenting in *Lear,* would seem to agree, for he said in 395 U.S. at 677 that one "who makes a discovery may, of course, keep it secret if he wishes. . . ." Petitioner is not attempting to obtain monopoly protection. The limited protection which it seeks against Bicron is not with respect to matters in the public domain. Accordingly, *Sears, Compco* and *Lear* all point to the conclusion that there is no preemption here, and that the application of Ohio law to the facts found in the instant case by the district court was in all respects proper.

Goldstein v. *California, supra,* 412 U.S. 546, also supports this conclusion. There this Court upheld a California statute which imposed criminal penalties on "every person" who copied musical recordings, admitted to have been freely available to the public, against a claim of preemption by the federal copyright laws. Ohio trade secret law is considerably less expansive than was the California statute there upheld, for while trade secret law also prohibits copying only and not independent development, it does not protect materials freely available to the public, and operates only against copiers who stand in a fiduciary or contractual relationship to the trade secret proprietor. Since Ohio trade secret law has a much narrower scope than the statute upheld in *Goldstein,* that case strongly supports Kewanee's position here.

All circuits which have considered this question, other than the Sixth Circuit, agree that there is no preemption: *Painton & Co.* v. *Bourns, Inc., supra,* 442 F.2d at 222-226; *Dekar Industries, Inc.* v. *Bissett-Berman Corp.,* 434 F.2d 1304, 1306 (9th Cir. 1970), certiorari denied, 402 U.S. 945 (1971); *Water Services Inc.* v. *Tesco Chemicals, Inc., supra,* 410 F.2d at 171-

172; *Servo Corporation of America* v. *General Electric Co.*, 337 F.2d 716, 724-725 (4th Cir. 1964), certiorari denied, 383 U.S. 934 (1966). The commentators have reached the same conclusion. See, *e.g.*, Note, *Trade Secrets Law After Sears and Compco*, 53 VA. L. REV. 356 (1967); Note, 85 HARV. L. REV. 477 (1970). Moreover those commentators who have had an opportunity to consider the Sixth Circuit's decision agree that it is unsound. Note, *Kewanee Oil Company* v. *Bicron Corportation: Can Trade Secrets Survive It?*, 25 BAYLOR L. REV. 519 (1973); Wydick, *Trade Secrets: Federal Preemption in Light of Goldstein and Kewanee* (to be published in the November and December issues of the *Journal of the Patent Office Society*).

C. The Interests Protected by the Ohio Law of Trade Secrets Are Different from, and Do Not Conflict with, Federal Patent Policy.

Ohio trade secret law operates in a different sphere than the Patent Code and serves a different interest. Federal patent law exists "for the purpose of encouraging useful invention." *Bauer & Cie.* v. *O'Donnell*, 229 U.S. 1, 10 (1913). "As a reward for inventions and to encourage their disclosure, the United States offers a seventeen-year monopoly to an inventor who refrains from keeping his invention a trade secret." *Universal Oil Products Co.* v. *Globe Oil & Refining Co.*, 322 U.S. 471, 484 (1944).

Ohio trade secret law, on the other hand, is intended to deter basic dishonesty in appropriating secrets in breach of contract or fiduciary duty. *National Tube Co.* v. *Eastern Tube Co., supra*, 3 Ohio C.C.R. (n.s.) at 462:

> "The necessity of good faith and honest, fair dealing, is the very life and spirit of the com-

> mercial world. It is absolutely necessary that it should be protected and enforced by courts. . . ."

See also, 4 RESTATEMENT OF TORTS § 757, comment (b) at 7 (1939) (Pet. App. A28-A29), quoted in *W. R. Grace Co.* v. *Hargadine, supra,* 392 F.2d at 14:

> " 'The patent monopoly is a reward to the inventor. But such is not the case with a trade secret. Its protection is not based on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another's secret.' "

The words of Mr. Justice Holmes in *E. I. du Pont de Nemours Powder Co.* v. *Masland,* 244 U.S. 100, 102 (1917), make the point well:

> "Therefore the starting point for the present matter is not property or due process of law but that the defendant stood in confidential relations with the plaintiffs, or one of them. These have given place to hostility, and the first thing to be made sure of is that the defendant shall not fraudulently abuse the trust reposed in him. It is the usual incident of confidential relations."

Surely, for example, when an inventor takes his new idea to a large corporation which did not previously know of it and discloses it in reliance upon an express agreement by that corporation to keep it in confidence and not to use it without making fair arrangements as to compensation, and the corporation refuses the idea but thereafter, in breach of that agreement, puts the idea to "public use" for over one year before the inventor discovers what has been done, a tribunal applying state law may properly grant the inventor legal or equitable relief. Only when the protection sought

to be granted amounts to a patent monopoly on the fully published thing itself, as it did in *Sears* and *Compco,* is there any conflict between the policy of state law and federal law such as to warrant a finding of preemption.

States are not ousted from the exercise of legitimate powers merely because that exercise can be thought in some way to touch upon federal patents. Thus, an inventor may be punished for selling patented products in violation of criminal laws passed in implementation of a state's police power. *Patterson* v. *Kentucky,* 97 U.S. 501, 503 (1878), where it is stated that the right to a patent:

> ". . . is not granted or secured, without reference to the general powers which the several States of the Union unquestionably possess over their purely domestic affairs, whether of internal commerce or of police."

Similarly, a state may assess a tax for a license authorizing the sale of a patented product, *Webber* v. *Virginia,* 103 U.S. 344 (1880). It has also been held that a state may reasonably regulate the transfer of the patent grant, itself, *Allen* v. *Riley,* 203 U.S. 347, 355 (1906), in order "to protect its citizens from fraud." A state, under long standing common law, should also be able to apply its law to protect its citizens from the fraudulent appropriation of trade secrets, whether they are fit subjects for a patent or not, or are patentable.

Certainly, in the usual case this Court acts very slowly before finding that the unstated radiations of a federal statute require negation of a state's long standing common law which implements its police powers. "Any such rule of law, being in derogation

of the common law, must be strictly construed, for '[n]o statute is to be construed as altering the common law, farther than its words import. It is not to be construed as making any innovation upon the common law which it does not fairly express.'" *Herd & Co.* v. *Krawill Mach. Corp.*, 359 U.S. 297, 304-305 (1959), following *Shaw* v. *Railroad Co.*, 101 U.S. 557, 565-566 (1879); *accord, Johnson* v. *Southern Pacific Co.*, 196 U.S. 1, 17 (1904).

Moreover, ours is a federation in which the states have substantial police powers reserved to them by the Tenth Amendment. They may act, as Ohio has done with respect to trade secrets, by both their common law, as previously discussed, and by criminal statute, see O.R.C. § 1331.51(C),[12] to protect their citizens from fraud, dishonesty, theft and breach of contract or fiduciary duty. To compel states to condone such reprehensible conduct, if the subject thereof is trade secrets, would drastically curtail state power. This Court has held that "unless Congress conveys its purpose clearly, it will not be deemed to have significantly changed the federal-state balance. * * * In traditionally sensitive areas, such as legislation affecting the federal balance, the requirement of clear statement assures that the legislature has in fact faced, and intended to bring into issue, the critical matters involved in the judicial decision." *United States v. Bass*, 404 U.S. 336, 349 (1971). There is no suggestion here that Congress "has in fact faced, and intended to bring into issue, the critical" question whether the 1952 Patent Code operated substantially to preempt state protection of trade secrets.

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[12] See also the citations to 20 other state criminal trade secret statutes in Appendix B of *Brief Amicus Curiae by the Licensing Executives Society in Support of Petition for Writ of Certiorari.*

D. Kewanee's Position Is Confirmed by the Enactment of the 1952 Patent Code at a Time When This Court's Decisions Recognized the Protectability of Trade Secrets.

It is a well settled principle of construction that the re-enactment of a federal statute carries with it, in the absence of clear expression to the contrary, the interpretations which had been put on the previous versions of the statute with essentially similar wording. *Sessions* v. *Romadka,* 145 U.S. 29, 41-42 (1892); *United States* v. *Ryan,* 284 U.S. 167, 174-75 (1931); *Missouri* v. *Ross,* 299 U.S. 72, 75 (1936), *Electric Storage Battery Co.* v. *Shimadzu, supra,* 307 U.S. at 14; *Shapiro* v. *United States,* 335 U.S. 1, 16, 20 (1948); *Bridges* v. *United States,* 346 U.S. 209, 221 (1953) and cases cited at the pages indicated. The present action presents a particularly apt occasion for application of this principle. Many times prior to the codification of the patent laws in 1952, this Court held that state trade secret law could peacefully coexist with the federal patent law. In view of these holdings, there is no basis for thinking that Congress could have intended that by enacting the Patent Code it was doing away with the states' right to protect trade secrets from misappropriation by persons who stood in a fiduciary relationship to the trade secret proprietor and had expressly agreed to keep the secrets in confidence.

The full recognition of trade secret law by this Court before the enactment of the Patent Code in 1952 is evidenced in many opinions. A clear statement was made by Mr. Justice Brandeis (who was not generally an advocate of private monopoly) in his dissenting opinion in *International News Service* v. *Associated Press,* 248 U.S. 215, 248 *et seq.* (1918). He there stated 215 U.S. at 250-51:

> "The inventions and discoveries upon which this attribute of property is conferred only by statute,

> are the few comprised within the patent law. There are also many other cases in which courts interfere to prevent curtailment of plaintiff's enjoyment of incorporeal productions; and in which the right to relief is often called a property right, but is such only in a special sense. In those cases, the plaintiff has no absolute right to the protection of his production; he has merely the qualified right to be protected as against the defendant's acts, because of the special relation in which the latter stands or the wrongful method or means employed in acquiring the knowledge or the manner in which it is used. Protection of this character is afforded where the suit is based upon breach of contract or of trust or upon unfair competition."

The majority opinion in *International News,* of course, even more clearly supports Kewanee here.

The language used by the Court in *Dr. Miles Medical Co.* v. *John D. Park & Sons Co.,* 220 U.S. 373, 402 (1911) is similar:

> "So far as appears, there are no letters patent relating to the remedies in question. The complainant has not seen fit to make the disclosure required by the statute and thus to secure the privileges it confers. Its case lies outside the policy of the patent law, and the extent of the right which that law secures is not here involved or determined.
>
> "The complainant relies upon the ownership of its secret process and its rights are to be determined accordingly. Any one may use it who fairly, by analysis and experiment, discovers it. But the complainant is entitled to be protected against invasion of its right in the process by fraud or by breach of trust or contract."

In *Becher* v. *Contoure Laboratories, Inc.*, 279 U.S. 388, 391 (1929) Mr. Justice Holmes said, speaking for the Court:

> ". . . that suit had for its cause of action the breach of contract or wrongful disregard of confidential relations, both matters independent of the patent law, and that the subject matter of Oppenheimer's claim was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust. *Irving Iron Works* v. *Kerlow Steel Flooring Co.*, 96 N.J. Eq. 702. *Du Pont de Nemours Powder Co.* v. *Masland*, 244 U.S. 100. Oppenheimer's right was independent of and prior to any arising out of the patent law. . . ."

This Court has emphasized the fact that secrecy is a perfectly lawful alternative to disclosure in a patent application with the hope of protection under the 17-year monopoly of the patent laws. Thus, in *United States* v. *American Bell Telephone Co.*, 167 U.S. 224, 250 (1897), the Court noted that the inventor of something of value "may withhold the knowledge of it from the public" on the one hand or, on the other, "he may insist upon all the advantages and benefits which the statute promises to him who discloses to the public his invention." See also *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405, 424 (1908). The same alternative was noted in *United States* v. *Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933), which held that the inventor "may keep his invention secret and reap its fruits indefinitely." Since he has the right to do so, it is "[i]n consideration of its disclosure and the consequent benefit to the community [that] the patent is granted." *Accord, Universal Oil Products Co.* v. *Globe Oil & Refining Co., supra*, 322 U.S. at 484.

The Patent Code of 1952, including 35 U.S.C. § 102(b), must be understood to have incorporated this undeviating line of decisions. Accordingly, the Patent Code provides no basis for Bicron's claim of preemption.

E. The Sixth Circuit's Proposed Test Operates Capriciously and Leads to Illogical Results.

The Sixth Circuit limited its rule invalidating trade secrets to those secrets which were "an appropriate subject for patent under the United States Patent Laws" (478 F.2d at 1086; Pet. App. A24), "that is appropriate subjects for consideration under the provisions of Title 35 U.S.C. § 101" (478 F.2d at 1078; Pet. App. A7). Such a test would seem to be capricious and to implement no ascertainable societal policy. Computer programs, which are not ordinarily patentable, *Gottschalk* v. *Benson,* 409 U.S. 63 (1972), would be protectable as trade secrets, as would confidential customer lists, natural processes, see, *e.g., Funk Bros. Seed Co.* v. *Kalo Inoculant Co.,* 333 U.S. 127 (1948), and market quotations, *cf. Board of Trade* v. *Christie Grain & Stock Co.,* 198 U.S. 236 (1905), for none is patentable. On the other hand, a "process, machine, manufacture, or composition of matter," if used secretly for over a year or, presumably, otherwise failing to meet the requirements of 35 U.S.C. §§ 102 or 103, could not be protected as trade secrets because each is patentable subject matter under 35 U.S.C. § 101. How can Congress be presumed to have intended such a capricious and irrational result? The secrecy surrounding the formula for Coca-Cola has become part of American folk lore. Klein, *The Technical Trade Secret Quadrangle: A Survey,* 55 Nw. U.L. Rev. 437, 438 (1960). Could Congress have intended that the question whether a Coca-Cola employee could steal that secret

and sell it to a competitor should turn on whether the formula was patentable?

A statutory construction which results in "absurd consequences" should be "avoided." *United States* v. *Ryan,* 284 U.S. 167, 175 (1931). The Sixth Circuit's test would certainly lead to arbitrary distinctions which were never intended by the Patent Code. The decision below should therefore be reversed.

F. Protection of Trade Secrets is Consistent with Federal Antitrust Policy.

Some commentators have seen in the *Sears* and *Compco* decisions a reflection of federal antitrust policy. See, *e.g.,* Sutton, *Trade Secrets—Federal Preemption and Legislative Solutions,* 1971 PATENT LAW ANNUAL 129, 142 *et seq.* (Southwestern Legal Foundation); Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy,* 80 HARV. L. REV. 1432, 1457 (1967). But federal antitrust policy has not only emphasized free and open competition, it has emphasized fair competition, as the Ohio courts have recognized, *Crown Overall Mfg. Co.* v. *Levy Overall Mfg. Co.,* 16 Ohio N.P. (n.s.) 561, 564-65 (Super. Ct. 1914), *aff'd as modified,* 24 Ohio C.C. (n.s.) 556 (Ct. App. 1916. A seller cannot compete in sales of his products, even though his competitor's products are staple items long in the public domain, by engaging in the discrimination forbidden by the Robinson-Patman Act, 15 U.S.C. § 13, *et seq.* Even though its competitors' products have long been in the public domain, a business concern cannot engage in "unfair methods of competition in commerce," or "unfair or deceptive acts or practices in commerce" in violation of § 5(a)(1) of the Federal Trade Commission Act, 15 U.S.C. § 45.

The Commission has long construed its mandate to include enforcemen of the Act against competitors who pirate the trade secrets of others. *See*, ANNUAL REPORT OF THE FEDERAL TRADE COMMISSION, at 82-83 (1939):[13]

> "The following list illustrates unfair methods of competition and unfair or deceptive acts and practices condemned by the Commission from time to time in its orders to cease and desist.
>
> * * *
>
> "4. Procuring the business or trade secrets of competitors by espionage, or by bribing their employees, or by similar means."

Cf. In re The Oakes Co., 3 F.T.C. 36 (1920).

The Sherman Act, 15 U.S.C. §§ 1 and 2, has frequently been construed to reach acts of unfair competition, including misappropriation of trade secrets, when done pursuant to a conspiracy to destroy a competitor in violation of § 1 or pursuant to a scheme or attempt to monopolize in violation of § 2. *Atlantic Heel Co.* v. *Allied Heel Co.*, 284 F.2d 879 (1st Cir. 1960) (where one of the overt acts pursuant to the conspiracy was alleged to be a visit to plaintiff's plant for the "purpose of obtaining valuable and confidential trade secrets"); *Mitchell Woodbury Corp.* v. *Albert Pick Barth Co.*, 41 F.2d 148, 149 (1st Cir. 1930), *jury verdict for plaintiff affirmed*, 57 F.2d 96 (1st Cir. 1932), certiorari denied, 286 U.S. 552 (1932) (where the conspiracy allegations included a claim that former employees of plaintiff were induced to leave the plaintiff's employ and to take with them the plaintiff's "lists of customers, present and prospective, cost records, plans,

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[13] Cited in *F.T.C.* v. *Bunte Bros., Inc.*, 312 U.S. 349, 353-54 (1941.)

and other data necessary to the conduct of its said business"). See also *C. Albert Sauter Co.* v. *Richard S. Sauter Co.*, summarized at 42 U.S.L.W. 2233-2234 (E.D. Pa. Oct 5, 1973); *Forgett* v. *Scharf*, 181 F.2d 754 (3d Cir. 1950), certiorari denied, 340 U.S. 825 (1950); *Perryton Wholesale, Inc.* v. *Pioneer Distributing Co.*, 353 F.2d 618 (10th Cir. 1965), certiorari denied, 383 U.S. 945 (1966); *Caldwell-Clements, Inc.* v. *Cowan Publishing Corp.*, 130 F. Supp. 326 (S.D. N.Y. 1955); *Cleaves* v. *Peterboro Basket Co.*, 54 F.2d 101 (D. N.H. 1931).

The protection of trade secrets is consistent with and in furtherance of our national antitrust policy, not in conflict with it.

G. Federal Statutes, Treaties and Court Rules, Both Before and After Enactment of the 1952 Patent Code, Have Recognized the Protectability of Trade Secrets.

A great number of United States statutes existed on the 1952 date of passage of the Patent Code which expressly recognized and provided for trade secret protection under a variety of circumstances. Such statutes are set out in Appendix A to this Brief (Br. App. 1a-3a). The Federal Rules of Civil Procedure, former Rule 30(b) which became effective on September 16, 1938, the authority for the promulgation of which ultimately rests with Congress (see what is now 28 U.S.C. § 2072), recognized and provided for the protection of trade secrets. The United States has been a signatory to numerous treaties which contain provisions concerning the protection of trade secrets.[14]

[14] See, *e.g.*, Convention of Paris for the Protection of Industrial Property, March 20, 1883, revised periodically and at Lisbon on October 31, 1958, Art. 10bis(2), 13 U.S.T. 1, which provides that

This Court has held: "It is a cardinal principle of construction that repeals by implication are not favored." *United States* v. *Borden Co.*, 308 U.S. 188, 198 (1939), cited with approval in *Georgia* v. *Pennsylvania R.R. Co.*, 324 U.S. 439, 456-457 (1945), *Silver* v. *New York Stock Exchange*, 373 U.S. 341, 357 (1963) and *United States* v. *Zacks*, 375 U.S. 59, 67-68 (1963); *accord, Universal Interpretive Shuttle Corp.* v. *Washington Metropolitan Area Transit Comm.*, 393 U.S. 186, 193 (1968). Yet, the scope for operation of these Congressional actions will be so drastically reduced if the Sixth Circuit's judgment is affirmed as to amount to a repeal by implication. This result would not comport with the tenet that federal legislation is to be construed to preserve the usefulness of all provisions enacted by Congress. See *Armstrong Paint & Varnish Works* v. *Nu-Enamel Corp.*, 305 U.S. 315, 333 (1938).

Moreover, this Court may look to these other Congressional actions as an aid to construction of the Patent Code. *Cf. Overstreet* v. *North Shore Corp.*, 318 U.S. 125, 131-132 (1943). They are particularly helpful since they represent a continuing and consistent body of statutory law. *Keifer & Keifer* v. *R.F.C.*, 306 U.S. 381,, 390-391 (1939) (analogous provisions in some 40 other statutes considered). Since these other acts *specifically* and *expressly* contemplate trade secret protec-

"Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition"; General Inter-American Convention for Trade Mark and Commercial Protection, February 20, 1929, Art. 20, 46 Stat. 2907 at 2930-2932, which provides that "Every act or deed contrary to commercial good faith or to the normal or honorable development of industrial or business activities shall be considered as unfair competition and therefore unjust and prohibited"; various treaties summarized at 2 CCH TAX TREATIES ¶ 10,011 (1971) under heading "Industrial secret."

tion, while the Patent Code is silent in this respect, the specific language should control and there is no preemption of trade secret protection. See *Fourco Glass Co.* v. *Transmirra Products Corp.*, 353 U.S. 222, 228-229 (1957). To accommodate all of these Congressional actions into one harmonious body of law, the construction of the Patent Code adopted by the Sixth Circuit should be rejected.

Even more to the point, the 1952 Patent Code itself, 35 U.S.C. § 24 (Br. App. 6a), provided that a witness could not be held in contempt "for refusing to disclose any secret matter except upon appropriate order of the court." This provision, the antecedents of which go back to Rev. Stat. § 4908, has long been construed to cover a "secret invention or discovery" in appropriate circumstances. *Herreshoff* v. *Knietsch*, 127 Fed. 492 (S.D. N.Y. 1904). The same statute which protects trade secrets can hardly be construed to have largely destroyed their legal enforceability, since "all sections of the Act must be reconciled so as to produce a symmetrical whole." *F.P.C.* v. *Panhandle Eastern Pipe Line Co.*, 337 U.S. 498, 514 (1949); see also *Armstrong Paint & Varnish Works* v. *Nu-Enamel Corp.*, *supra*, 305 U.S. at 331-33.

Just as a number of federal statutes antedating 1952 authorize the protection of trade secrets, so a substantial number of statutes enacted after 1952 similarly reflect a Congressional intent that trade secrets enjoy protection in appropriate circumstances. These statutes are set out in Appendix B to this Brief (Br. App. 4a-11a). It should also be observed that many of the statutes set out in Appendix A were amended after 1952 and continued their recognition of trade secrets. Moreover, the 1970 amendments to the Federal Rules

of Civil Procedure continue to recognize the protectibility of trade secrets. FED. R. CIV. P. 26 (c). While Kewanee acknowledges that the understanding of a subsequent Congress cannot control the intention of an earlier Congress, this Court has held that "the later law is entitled to weight when it comes to the problem of construction." See *F.H.A.* v. *The Darlington, Inc.*, 358 U.S. 84, 90 (1958).

Here all of the relevant enactments, whether before or after 1952, point in one direction only: that the Patent Code did not in any way interfere with properly limited injunctions which protect the proprietor of trade secrets under state law from misappropriation by persons in breach of a fiduciary duty or agreement.

III. A LARGE VOLUME OF BUSINESS TRANSACTIONS HAS BEEN GENERATED IN RELIANCE UPON THE CONTINUING VALIDITY OF TRADE SECRETS AND THESE EXPECTATIONS SHOULD NOT BE IMPERILED.

It is well known that a large number of American manufacturers and inventors have acted in reliance upon the traditional law of trade secrets. Disclosures have been made to employees which would not otherwise have been made. License agreements have been entered into. Inventors have failed to file patent applications, choosing instead to rely on common law trade secret protection. Inventors have made disclosures to corporations in reliance on secrecy agreements. Commerce affected by these actions may well run into the billions of dollars. From the tenor of the *amicus* briefs filed in support of the petition for certiorari, it seems likely that this issue will be substantially canvassed in such *amicus* briefs on the merits, so it will not be further explored factually here.

The point for present purposes is that the enormous volume of commercial transactions which has been gen-

erated in reliance upon the continued validity of trade secret protection counsels strongly for conservation of the legal *status quo.*[15] See *Toolson* v. *New York Yankees, Inc.*, 346 U.S. 356 (1953); *reaffirmed in Flood* v. *Kuhn*, 407 U.S. 258 (1972). This principle is doubly applicable here for this Court has held that the forfeiture of valuable industrial property rights is "never to be inferred from doubtful [statutory] language." See *Washington Publishing Co.* v. *Pearson*, 306 U.S. 30, 42 (1939) (involving forfeiture of copyright rights).

There is one additional reason for adhering to existing law, if there be any doubt at all on the question. That reason arises out of the fact that Congress can intervene by legislation if it chooses, and determine the scope of the Patent Code following a decision by this Court. Should this Court reverse the Sixth Circuit and hold that 35 U.S.C. § 102(b) does not preempt state trade secret law, the only effect of such a holding, if Congress disagreed, would be continuation for perhaps another year of a body of law which has prevailed for over 100 years. If, however, this Court should hold that the law of trade secrets has been preempted to a substantial extent, and Congress disagreed, then all of the persons who were thereby released from their fiduciary duty could, in the interim between the decision of this Court and any corrective action of Congress, act to place any secret in the public domain by, for example, printing brochures fully disclosing

[15] The self-help remedies likely to be invoked to protect secret processes, should this Court hold them not protectable by a court, are not happy to contemplate. They are discussed in Wydick, *Trade Secrets: Federal Preemption in Light of Goldstein and Kewanee, supra,* text accompanying footnotes 195-199.

it which would then be circulated to all members of the affected trade. When Congress thereafter acted to restore prior law, secrets so published in the interim would be irrevocably lost and hundreds of millions of dollars of commerce could be adversely affected.[16]

This argument is substantially strengthened by the fact that legislation now under active consideration provides that *Sears* and *Compco* shall not be extended to invalidate the law of trade secrets. Section 301 of S. 2504, the Administration's Patent Modernization and Reform Act of 1973, introduced on October 1, 1973 states:

> "§ 301. Non-preemption
>
> "(a) This title shall not be construed to preempt rights or obligations arising by operation of state law concerning trade secrets.
>
> "(b) Nothing in subsection (a) shall authorize any state to grant to any person the right to limit the full and free use by the public of ideas in the public domain or in general circulation."

The accompanying Message stated the Administration's view that "[d]ecisions of the Supreme Court in both of these areas [patents and trade secrets] would also be left undisturbed." 119 Cong. Rec. S 17902 (Sept. 27, 1973).

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[16] While Kewanee argues here for reversal of the Sixth Circuit's decision, it urges in the alternative that these considerations counsel for a limitation of the effect of any affirmance, should the Court choose to affirm, to the future only, or preferably to a date six months to a year after affirmance to give Congress an opportunity to act before any hiatus comes into existence. See *Chevron Oil Co.* v. *Huson*, 404 U.S. 97, 105-107 (1971).

CONCLUSION

For the reasons stated the judgment of the Sixth Circuit should be reversed, and the case remanded with instructions to affirm the decision of the district court.

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November 23, 1973

APPENDIX

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APPENDIX A

The following statutes and regulations deal with or refer to the protection of trade secrets and were enacted prior to enactemnt of the 1952 Patent Code. Emphasis has been supplied throughout to bring out the references to trade secrets.

Act of June 25, 1948, 62 Stat. 791, *as amended* **19 U.S.C. §1905 (1970).**

Whoever, being an officer or employee of the United States or of any department or agency thereof, publishes, divulges, discloses, or makes known in any manner or to any extent not authorized by law any information coming to him in the course of his employment or official duties or by reason of any examination or investigation made by, or return, report or record made to or filed with, such department or agency or officer or employee thereof, which information concerns or relates to the *trade secrets,* processes, operations, style of work, or apparatus, or to the identity, confidential statistical data, amount or source of any income, profits, losses, or expenditures of any person, firm, partnership, corporation, or association; or permits any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; shall be fined not more than $1,000, or imprisoned not more than one year, or both; and shall be removed from office or employment.

Act of June 25, 1947, § 3c(4), 61 Stat. 167, *as amended* **7 U.S.C.A. § 136j(a)(2)(D) (Supp. 1973).**

c. It shall be unlawful—

• • •

(4) for any person to use for his own advantage or to reveal, other than to the Secretary, or officials or employees of the United States Department of Agriculture, or other Federal agencies, or to the courts in response to a subpoena, or to physicians, and in emergencies to pharmacists and other qualified persons, for use in the preparation of antidotes, in accordance with such directions as the Secretary may prescribe, *any information relative to formulas of products* acquired by authority of section 4 of this Act.

Act of June 25, 1947, § 8c, 61 Stat. 170, *as amended* **7 U.S.C.A. § 1361(b)(3) (Supp. 1973).**

c. Notwithstanding any other provision of this section, in case any person, with intent to defraud, *uses or reveals information relative to formulas of products* acquired under the authority of section 4 of this Act, he shall be fined not more than $10,000 or imprisoned for not more than three years, or both such fine and imprisonment.

Act of June 11, 1946, § 3(b), 60 Stat. 238, *as amended* **5 U.S.C. § 552(b)(4) (1970).**

(b) Opinions and Orders—Every agency shall publish or, in accordance with published rule, make available to public inspection all final opinions or orders in the adjudication of cases (except those required for good cause to be held *confidential* and not cited as precedents) and all rules.

Federal Food, Drug and Cosmetic Act, § 301(j), 52 Stat. 1042 (1938), *as amended* **21 U.S.C. § 331(j) (1970).**

The following acts and the causing thereof are hereby prohibited:

* * *

(j) The using by any person to his own advantage, or revealing, other than to the Secretary or officers or employees of the Department, or to the courts when relevant in any judicial proceeding under this Act, any information acquired under authority of section 404, 505, or 704 concerning any method or process which as a *trade secret* is entitled to protection.

Securities Exchange Act of 1934, § 24(a), 48 Stat. 901, *as amended* **15 U.S.C. § 78x(a) (1970).**

(a) Nothing in this title shall be construed to require, or to authorize the Commission to require, the revealing of *trade secrets* or processes in any application, report, or document filed with the Commission under this title.

Act of February 25, 1925, 43 Stat. 977, *as amended* **18 U.S.C. § 1702 (1970).**

. . . or whoever shall take any letter, postal card, or package out of any post office or station thereof, or out of

any authorized depository for mail matter, or from any letter or mail carrier, or which has been in any post office or station thereof, or other authorized depository, or in the custody of any letter or mail carrier, before it has been delivered to the person to whom it was directed, with a design to obstruct the correspondence, or to pry into the business or *secrets* of another, or shall open, secrete, embezzle, or destroy the same, shall be fined not more than $2,000 or imprisoned not more than five years, or both.

Act of September 26, 1914, § 6(f), 38 Stat. 721, 722, *as amended* 15 U.S.C. § 46(f) (1970).

That the commission shall also have power—

• • •

(f) To make public from time to time such portions of the information obtained by it hereunder, except *trade secrets* and names of customers, as it shall deem expedient in the public interest; and to make annual and special reports to the Congress and to submit therewith recommendations for additional legislation; and to provide for the publication of its reports and decisions in such form and manner as may be best adapted for public information and use.

Patent Office Reg. 37 C.F.R. § 1.14(a) (1949), *as enacted in the Patent Code*, 35 U.S.C § 122 (1970).

(a) Pending patent applications are preserved in *secrecy*. No information will be given by the Office respecting the filing by any particular person of an application for a patent, the pendency of any particular case before it, or the subject matter of any particular application, nor will access be given to or copies furnished of any pending application or papers relating thereto, without written authority of the applicant, or his assignee or attorney or agent, unless it shall be necessary to the proper conduct of business before the Office or as provided by this part.

APPENDIX B

The following statutes deal with or refer to the protection of trade secrets and were either enacted or amended to their present form since the enactment of the 1952 Patent Code. Emphasis has been supplied to bring out the references to trade secrets.

Act of June 5, 1967, 5 U.S.C. § 552(b)(4) (1970).

(b) This section does not apply to matters that are—

* * *

(4) *trade secrets* and commercial or financial information obtained from a person and privileged or confidential;

Act of August 10, 1956, 10 U.S.C. § 2386(3) (1970).

Funds appropriated for a military department available for making or procuring supplies may be used to acquire any of the following if the acquisition relates to supplies or processes produced or used by or for, or useful to, that department:

* * *

(3) Designs, processes, and manufacturing data.

Flammable Fabrics Act, 15 U.S.C. § 1193(c) (1970).

(c) * * * All information reported to or otherwise obtained by the Secretary or his representative pursuant to this subsection which information contains or relates to a *trade secret* or other matter referred to in section 1905 of Title 18, shall be considered confidential for the purpose of that section, except that such information may be disclosed to other officers or employees concerned with carrying out this chapter or when relevant in any proceeding under this chapter. * * *

Federal Hazardous Substances Labeling Act, 15 U.S.C. § 1263(h) (1970).

The following acts and the causing thereof are prohibited:

* * *

(h) The use by any person to his own advantage, or revealing other than to the Secretary or officers or employees of the Department, or to the courts when relevant in any

judicial proceeding under this chapter, of any information acquired under authority of section 1270 of this title concerning any method of process which as a *trade secret* is entitled to protection.

National Traffic and Motor Vehicle Safety Act of 1966, 15 U.S.C. § 1401(e) (1970).

(e) All information reported to or otherwise obtained by the Secretary or his representative pursuant to subsection (b) or (c) of this section which information contains or relates to a *trade secret* or other matter referred to in section 1905 of Title 18, shall be considered confidential for the purpose of that section, except that such information may be disclosed to other officers or employees concerned with carrying out this subchapter or when relevant in any proceeding under this subchapter. • • •

Federal Food, Drug and Cosmetic Act, 21 U.S.C. § 331(j) (1970).

The following acts and the causing thereof are prohibited:

• • •

(j) The using by any person to his own advantage, or revealing, other than to the Secretary or officers or employees of the Department, or to the courts when relevant in any judicial proceeding under this chapter, any information acquired under authority of section 344, 348, 355, 356, 357, 360b, 374, or 376 or this title concerning any method or process which as a *trade secret* is entitled to protection.

Wholesome Poultry Products Act, 21 U.S.C. § 458(a)(5) (1970).

(a) No person shall—

• • •

(5) use to his own advantage, or reveal other than to the authorized representatives of the United States Government or any State or other government in their official capacity, or as ordered by a court in any judicial proceedings, any information acquired under the authority of this chapter concerning any matter which is entitled to protection as a *trade secret*.

Occupational Safety and Health Act of 1970, 29 U.S.C. § 664 (1970).

All information reported to or otherwise obtained by the Secretary or his representative in connection with any inspection or proceeding under this chapter which contains or which might reveal a *trade secret* referred to in section 1905 of Title 18 shall be considered confidential for the purpose of that section, except that such information may be disclosed to other officers or employees concerned with carrying out this chapter or when relevant in any proceeding under this chapter. In any such proceeding the Secretary, the Commission, or the court shall issue such orders as may be appropriate to protect the confidentiality of trade secrets.

Water Quality Improvement Act of 1970, 33 U.S.C. § 1163 (g)(3) (1970).

(3) * * * All information reported to or otherwise obtained by, the Secretary or the Secretary of the department in which the Coast Guard is operating or their representatives pursuant to this subsection which contains or relates to a *trade secret* or other matter referred to in section 1905 of Title 18 shall be considered confidential for the purpose of that section, except that such information may be disclosed to other officers or employees concerned with carrying out this section. * * *

Act of July 19, 1952, 35 U.S.C. § 24 (1970).

* * * No witness shall be deemed guilty of contempt . . . for refusing to disclose any *secret matter* except upon appropriate order of the court which issued the subpoena.

Act of July 19, 1952, 35 U.S.C. § 122 (1970).

Applications for patents shall be kept *in confidence* by the Patent Office and no information concerning the same given without authority of the applicant or owner unless necessary to carry out the provisions of any Act of Congress or in such special circumstances as may be determined by the Commissioner.

Postal Reorganization Act, 39 U.S.C. § 410(c)(2) (1970).

(c) Subsection (b)(1) of this section shall not require the disclosure of—

* * *

(2) information of a commercial nature, including *trade secrets*, whether or not obtained from a person outside the Postal Service, which under good business practice would not be publicly disclosed;

Radiation Control for Health and Safety Act of 1968, 42 U.S.C. § 263g(d) (1970).

(d) * * * The Secretary shall disclose to the public so much of the information contained in such notice or other information obtained under section 263i of this title as he deems will assist in carrying out the purposes of this subpart, but he shall not disclose any information which contains or relates to a *trade secret* or other matter referred to in section 1905 of Title 18 unless he determines that it is necessary to carry out the purposes of this subpart.

Radiation Control for Health and Safety Act of 1968, 42 U.S.C. § 263i(e) (1970).

(e) The Secretary or his representative shall not disclose any information reported to or otherwise obtained by him, pursuant to subsection (a) or (b) of this section, which concerns any information which contains or relates to a *trade secret* or other matter referred to in section 1905 of Title 18, except that such information may be disclosed to other officers or employees of the Department and of other agencies concerned with carrying out this subpart or when relevant in any proceeding under this subpart. * * *

Air Quality Act of 1967, 42 U.S.C. § 1857c-9(c) (1970).

(c) Any records, reports or information obtained under subsection (a) shall be available to the public, except that upon a showing satisfactory to the Administrator by any person that records, reports, or information, or particular part thereof, (other than emission data) to which the Administrator has access under this section if made public, would divulge methods or processes entitled to protection as *trade secrets* of such person, the Administrator shall consider such record, report, or information or particular portion thereof confidential in accordance with the purposes of section 1905 of title 18 of the United States Code, except that such record, report, or information may be disclosed to other officers, employees, or authorized representatives of the United States concerned with carrying

out this Act [42 USCS §§ 1857 and notes-1858a] or when relevant in any proceeding under this Act.

Air Quality Act of 1967, 42 U.S.C. § 1857d(j)(1) (1970).

(j)(1) * * * No person shall be required in such report to divulge *trade secrets* or secret processes and all information reported shall be considered confidential for the purposes of section 1905 of title 18 of the United States Code [18 USCS § 1905].

Air Quality Act of 1967, 42 U.S.C. § 1857f-6(b) (1970).

(b) Any records, reports or information obtained under subsection (a) shall be available to the public, except that upon a showing satisfactory to the Administrator by any person that records, reports, or information, or particular part thereof (other than emission data), to which the Administrator has access under this section if made public, would divulge methods or processes entitled to protection as *trade secrets* of such person, the Administrator shall consider such record, report, or information or particular portion thereof confidential in accordance with the purposes of section 1905 of title 18 of the United States Code, except that such record, report, or information may be disclosed to other officers, employees, or authorized representatives of the United States concerned with carrying out this Act [42 USCS §§ 1857 and notes-1858a] or when relevant in any proceeding under this Act [42 USCS §§ 1857 and notes 1858a]. * * *

Consumer Product Safety Act, 15 U.S.C.A. § 2055(a)(2) (Supp. 1973).

(2) All information reported to or otherwise obtained by the Commission or its representative under this chapter which information contains or relates to a *trade secret* or other matter referred to in section 1905 of Title 18 shall be considered confidential and shall not be disclosed, except that such information may be disclosed to other officers or employees concerned with carrying out this chapter or when relevant in any proceeding under this chapter. * * *

Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. § 136h(a), (b) (Supp. 1973).

136h. Protection of trade secrets and other information. —(a) In General.—In submitting data required by this

Act [7 USCS §§ 136-136y], the applicant may (1) clearly mark any portions thereof which in his opinion are *trade secrets* or commercial or financial information and (2) submit such market material separately from other material required to be submitted under this Act [7 USCS §§ 136-136y].

(b) Disclosure.—Notwithstanding any other provision of this Act [7 USCS §§ 136-136y], the Administrator shall not make public information which in his judgment contains or relates to *trade secrets* or commercial or financial information obtained from a person and privileged or confidential, except that, when necessary to carry out the provisions of this Act [7 USCS §§ 136-136y], information relating to formulas of products acquired by authorization of this Act [7 USCS §§ 136-136y] may be revealed to any Federal agency consulted and may be revealed at a public hearing or in findings of fact issued by the Administrator.

Federal Water Pollution Control Act Amendments of 1972, 33 U.S.C.A. § 1318(b)(2) (Supp. 1973).

(b) Any records, reports, or information obtained under this section * * * (2) shall be available to the public, except that upon a showing satisfactory to the Administrator by any person that records, reports, or information, or particular part thereof (other than effluent data), to which the Administrator has access under this section, if made public would divulge methods or processes entitled to protection as *trade secrets* of such person, the Administrator shall consider such record, report, or information, or particular portion thereof confidential in accordance with the purposes of section 1905 of Title 18, except that such record, report, or information may be disclosed to other officers, employees, or authorized representatives of the United States concerned with carrying out this chapter or when relevant in any proceeding under this chapter.

Federal Water Pollution Control Act Amendments of 1972, 33 U.S.C.A. § 1320(d) (Supp. 1973).

(d) * * * Upon a showing satisfactory to the board by the person filing such report that such report or portion thereof (other than effluent data), to which the Administrator has access under this section, if made public would divulge *trade secrets* or secret processes of such person,

the board shall consider such report or portion thereof confidential for the purposes of section 1905 of Title 18. * * *

Federal Water Pollution Control Act Amendments of 1972, 33 U.S.C.A. § 1322(g)(3) (Supp. 1973).

(3) * * * All information reported to or otherwise obtained by the Administrator or the Secretary of the department in which the Coast Guard is operating or their representatives pursuant to this subsection which contains or relates to a *trade secret* or other matter referred to in section 1905 of Title 18 shall be considered confidential for the purpose of that section, except that such information may be disclosed to other officers or employees concerned with carrying out this section. * * *

Federal Water Pollution Control Act Amendments of 1972, 33 U.S.C.A. § 1369(a)(1) (Supp. 1973).

(a)(1) * * * Except for effluent data, upon a showing satisfactory to the Adminstrator that such papers, books, documents, or information or particular part thereof, if made public, would divulge *trade secrets* or secret processes, the Administrator shall consider such record, report, or information or particular portion thereof confidential in accordance with the purposes of section 1905 of Title 18, except that such paper, book, document, or information may be disclosed to other officers, employees, or authorized representatives of the United States concerned with carrying out this chapter, or when relevant in any proceeding under this chapter. * * *

Economic Stabilization Act Amendments of 1971, § 205, 85 Stat. 747.

All information reported to or otherwise obtained by any person exercising authority under this title which contains or relates to a *trade secret* or other matter referred to in section 1905 of title 18, United States Code [Section 1905 of Title 18], shall be considered confidential for the purposes of that section, except that such information may be disclosed to other persons empowered to carry out this title solely for the purpose of carrying out this title or when relevant in any proceeding under this title.

Consumer Credit Protection Act, § 405(e), 82 Stat. 166 (1968).

(e) When the Commission finds that publication of any information obtained by it is in the public interest and would not give an unfair competitive advantage to any person, it may publish the information in the form and manner deemed best adapted for public use, except that data and information which would separately disclose the business transactions of any person, *trade secrets,* or names of customers shall be held confidential and shall not be disclosed by the Commission or its staff. * * *

Act of May 22, 1968, § 5(f), 82 Stat. 128.

(f) Any information which is reported to or otherwise obtained by the Secretary or such officer or employee under this section and which contains or relates to a *trade secret* or other matter referred to in section 1905 of title 18 of the United States Code [section 1905 of Title 18, Crimes and Criminal Procedure], shall not be disclosed except to other officers or employees of the Federal Government for their use in carrying out this joint resolution. * * *

Act of July 3, 1964, § 5(e), 78 Stat. 271.

(e) When the Commission finds that publication of any information obtained by it is in the public interest and would not give an unfair competitive advantage to any person, it is authorized to publish such information in the form and manner deemed best adapted for public use, except that data and information which would separately disclose the business transactions of any person, *trade secrets,* or names of customers shall be held confidential and shall not be disclosed by the Commission or its staff: Provided, however, That the Commission shall permit business firms or individuals reasonable access to documents furnished by them for the purpose of obtaining or copying such documents as need may arise.

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In The Supreme Court of The United States

October Term, 1973

No. 73-187

KEWANEE OIL COMPANY,

Petitioner,

v.

BICRON CORPORATION, et al.,

Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

BRIEF FOR AMICUS CURIAE ROHR INDUSTRIES, INC.

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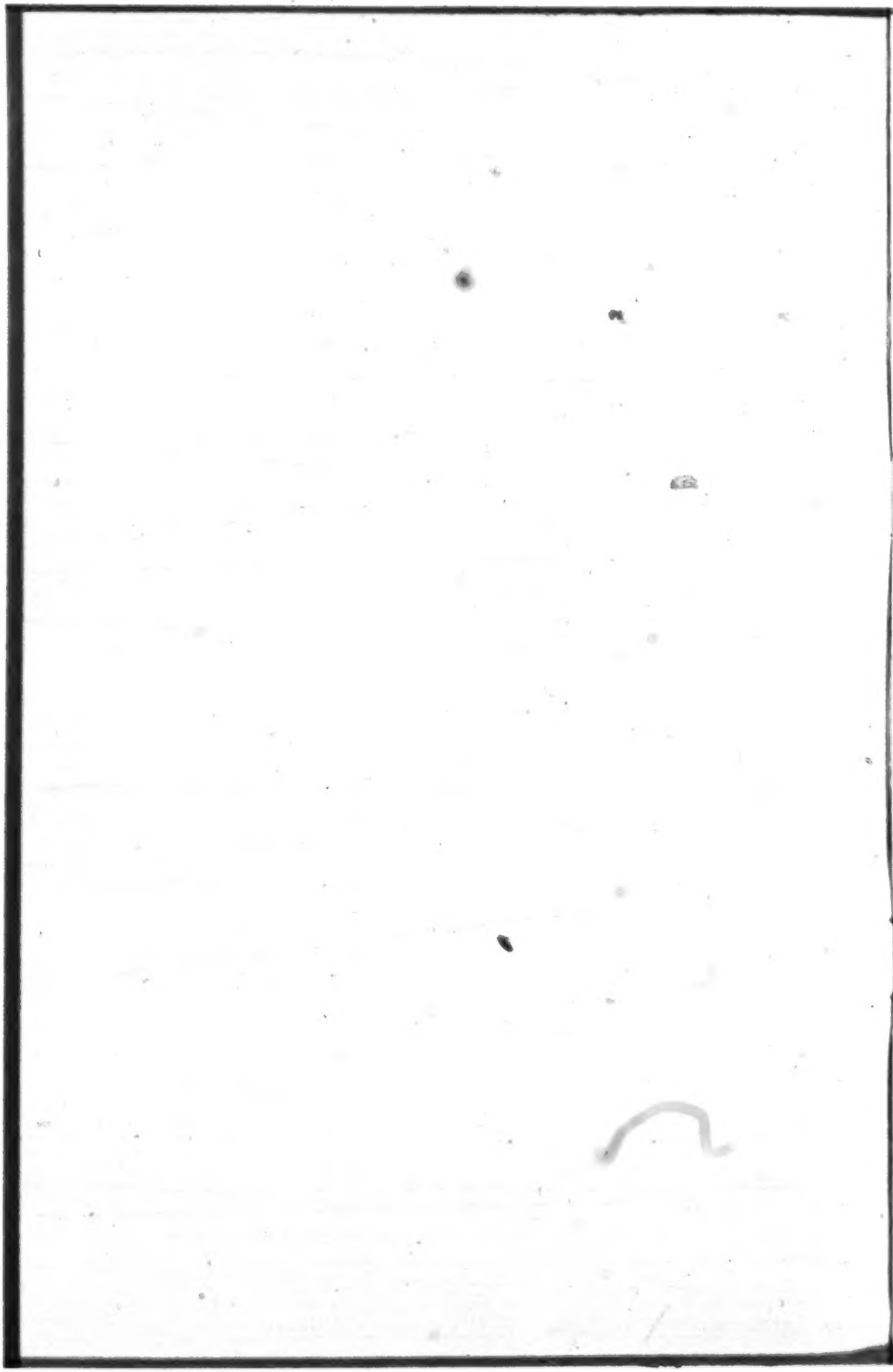

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IN THE SUPREME COURT OF THE UNITED STATES

October Term, 1973

No. 73-187

KEWANEE OIL COMPANY,

Petitioner,

v.

BICRON CORPORATION, et al.,

Respondents.

BRIEF FOR AMICUS CURIAE ROHR INDUSTRIES, INC.

INTRODUCTION

Rohr Industries, Inc. ("Rohr"), as an amicus curiae herein, strongly supports Kewanee Oil Company, petitioner, and urges this court resolve the major constitutional issue posed by the opinion of the Court of Appeals for the Sixth Circuit, holding that the Federal Constitution and the Federal Patent Law preempt Ohio's Trade Secret Law. This decision is an error, and is in direct conflict of the ruling of the courts of appeals of four other circuits.

NATURE OF ROHR

Rohr has been the world's leading producer of aircraft power packages and structures for three decades. Rohr today is a growing and diversified designer and builder of ground transportation systems, industrial products, and marine systems as well as aerospace systems. It maintains manufacturing facilities throughout the United States and in several foreign countries. In 1973 the total assets of Rohr were $234.4 million and its sales were $373 million.

INTEREST OF ROHR

The opinion of the Sixth Circuit, if affirmed, would have a particularly drastic effect on Rohr. Rohr is an aerospace company which has successfully diversified into the commercial market, by becoming a leading ground transportation system manufacturer. In conducting its business, Rohr relies heavily on certain confidential proprietary information of its own and of others. Since confidential technological information could be held in the past as a basic company asset, management could justify continued internally funded research and development and continued investment in capital equipment to put this information to use. If the opinion of the Sixth Circuit is not reversed it would seriously impair the value of existing secret technological information held by Rohr and would have a major adverse effect on the conduct of its business in the future.

QUESTION PRESENTED

1. Whether in view of the power granted to Congress to promote the progress of the useful arts by securing for limited times to inventors the exclusive right to their discoveries by Article I, Section 8, cl. 8 of the Constitution, the Federal Patent Law, 35 U.S.C. §§ 1-293, preempts a State secret law, thereby prohibiting a court under the Supremacy Clause of the Constitution from applying that law to enjoin the disclosure or use of secret technological information that is obtained by improper means and which relates to a "patentable" but unpatented discovery.[1]

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[1] Although the opinion of the Sixth Circuit is subject to the interpretation that preemption reaches only inventions patentable under Sections 102-103 of 35 U.S.C., the import of the opinion, as viewed by a manufacturer holding secret technological information, is that the broader area, the subject matter within 35 U.S.C. § 101 is also preempted. Clearly a preemption of this § 101 scope, "Any new and useful process, machine, manufacture, composition of matter, or any new and useful improvement thereof," would be generic to essentially all technology having value. Any manufacturer holding such secret technological information would have to consider suspect any contractual means of protecting its secret confidential technological information since any party charged with misappropriating such information would contend that it had been patentable but had not been patented within the year following the date of first public use thereby presenting a court with the unpleasant task of determining whether each item of information had indeed been patentable. Since a manufacturer is in the business of making products and not in the business

(Continued)

ARGUMENT

A. CONGRESS HAS NOT INDICATED THAT THE PATENT ACT IS INTENDED TO BE THE ONLY MEANS OF PROMOTING THE PROGRESS OF THE USEFUL ARTS SO AS TO PRECLUDE A STATE FROM ENACTING SUPPLEMENTARY MEANS OF ACHIEVING THE SAME PURPOSE.

Although the Congress could by the authority granted to it by Article I, Section 8, cl. 8 of the Constitution to promote the progress of the useful arts by securing for limited times to inventors the exclusive right to their discoveries, substantially deprive a state of the power to protect patentable but unpatented secret technological information from being wrongfully appropriated to another's use, it would appear clear that Congress has not so acted. A review of the Patent Act, [2]

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of contemplating at length each item of its technological information and pursuing a massive patent program in an attempt to protect its investment in research and development, it must necessarily treat its secret technological information as generally subject to misappropriation without recourse under the opinion of the Sixth Circuit.

[2] Congress recognized the validity of trade secrets and acted to preserve them in the Patent Act itself. Section 122 of the Patent Act, 35 U.S.C. 122, provides specifically that applications for patents shall be maintained in secrecy (which secrecy may be breached only in unusual circumstances). Section 122 also applies even if the application is ultimately denied or abandoned, Sears v. Gottschalk, 178 U.S.P.Q. 33 (E.D. Va. April 26, 1973).

commentary on its drafting,[3] and other legislation enacted by the Congress,[4] indicates that Congress has not considered the Patent Act to substantially occupy the field to the extent that a state concerned with the same purpose but approaching it in a different manner would be necessarily exercising an authority totally contradictory and repugnant. Even though the authority granted to Congress to promote science and the useful arts, which it exercises by issuing patents, is broad enough so that if exercised could substantially occupy the field and deprive a state of the power to protect unpatented secret technological information, a state at present does retain residual powers relating to the promotion of the useful arts.[5] The enactment of a state trade secret law by a state is a valid exercise of a

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[3] Commentary On The New Patent Act by P. J. Frederico, pp. 1-70, 35 U.S.C.A. 1.

Congressional Intent-Or, Who Wrote The Patent Act Of 1952 by G. S. Rich, Patent Procurement and Exploitation (1963).

[4] See 5 U.S.C. 552 (b); 15 U.S.C. 46 (f), 78 x (a), 1193 (c), 1263 (h), 1401 (e); 21 U.S.C. 331 (j), 458 (a) (5); 33 U.S.C.A. 1320 (d), 1369 (Supp. 1973), 35 U.S.C. 122; 42 U.S.C. 263i(e), 1857 f-5(b).

See generally, Milgrim, Trade Secrets 6.02, 6.03 (1973).

[5] For a consideration of the precepts of retained state powers relating to Art. I, 8, cl. 8 of the Constitution see Goldstein v. California, 41 U.S.L.W. 4829 (U.S. June 18, 1973).

retained power of the state to promote invention and innovation and is not preempted by the Federal Patent Law. Although a state law dealing with the protection of secret technological information could conflict with the Federal Patent Law, the Ohio State trade secret law[6] in question did not since it did not deal with exclusive rights or monopolies for inventors.

Since the Congress and the court[7] have treated trade secret law as a viable body of the law, American industry has relied to a significant degree on the protection of secret technological information by the protection afforded by such law. A tremendous investment in research and development and in capital equipment is based upon the protection which is afforded by such state trade secret laws[8] in conjunction with the protection afforded by the Federal Patent Law. Briefs of bar associations and societies will demonstrate in detail that the instant opinion is erroneous as a matter of law while the remainder of this brief will focus on the very real threat to American industry the adoption of this opinion represents.

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6 13 Ohio Rev. Code Ann. 1333, 51 (Supp. 1972)

7 Dupont Powder Co. v. Masland, 244 U.S. 100 (1917) and Becher v. Contoure Laboratories, 279 U.S. 388 (1929).

8 State Statutes:
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B. ADOPTION OF THE SIXTH CIRCUIT OPINION WOULD DESTROY A VALUABLE RESOURCE OF THIS COUNTRY.

It is not idle speculation that the opinion of the Sixth Circuit, if adopted by the court, would create incredible mischief for American industry and the American economy. An American company does not operate only within the American market, competing only with other American companies, but in reality competes in a world market against other foreign manufacturers. Even when an American manufacturer produces a product only for sale in the American market

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it is not only competing against other American manufacturers but against other foreign manufacturers as well. Foreign manufacturers have lower labor rates and frequently receive benefits directly or indirectly from their governments and if an American manufacturer is successfully competing with such foreign competition, in addition to domestic competition, it has characteristically done so on the basis of superior innovative resources and greater productivity. The incentive for investment in innovation and confidential technological information documenting innovation was justified on the basis that a company could maintain certain of its technological information in confidence and thereby be able to successfully compete.

If the Sixth Circuit is affirmed and a business is unable to protect its confidential technological information,[9] its ability to compete will be seriously impaired and good faith and fair dealing will not only be discouraged but piracy of trade secrets and employees condoned. Thus, an American company would enter into a new era of American business wherein competition would be carried on in an entirely different manner.

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[9] Although the opinion of the Sixth Circuit found only the Ohio Trade Secret law preempted by the Federal Patent Law, it appears clear that the court would also consider employment agreements and any other contractual means of maintaining proprietary technological information in confidence as also preempted. There is no reason to believe that the Sixth Circuit would not mistakedly also consider contractual means of protecting confidential technological information as a means of maintaining exclusive rights or a monopoly on such information.

Although a large company would undergo difficulties from having its secret technological information and employees pirated the real loser in this new era would be the individual and the small company whose business could be totally destroyed by such piracy. A large company would have the resources which it had built up over the years to withstand such attacks but an individual or small business would be completely decimated by the wrongful appropriation of its secret technological information for another's use. Since the Patent Office has been criticized for having too low a standard of invention and patents which are litigated are generally found to be invalid, it would not be realistic to expect the Federal Patent Law to afford protection to innovations of the individual or the small business. It is only through continued protection of secret technological information by trade secret law in conjunction with the Federal Patent Law that an incentive for invention and innovation can be maintained for the private sector of the American economy.

C. AFFIRMANCE OF THE SIXTH CIRCUIT WOULD HAVE A PARTICULARLY DAMAGING EFFECT ON ROHR AS A TYPICAL EXAMPLE OF A COMPANY RELYING ON TRADE SECRET LAW TO PROTECT CONFIDENTIAL TECHNOLOGICAL INFORMATION.

While comment can be made that American industry would be severely damaged by the affirmance of the Sixth Circuit, it is also appropriate to comment upon the direct effect such affirmance would have on the business of Rohr. Rohr is an example of an aerospace company which has diversified into commercial activities while maintaining its interest in the aerospace field. Rohr as an

aerospace manufacturer has a heavy capital investment and employs a number of highly skilled workers and engineers since certain of its products require the utmost reliability, due to their use in airplanes. While protection of inventions is pursued under the Federal Patent Law to the extent that it can be, Rohr holds a large amount of secret technological information relating to certain processes for manufacturing aerospace parts, which information is not patentable under the Federal Patent Law.

In the commercial area, Rohr has become a leading manufacturer of ground transportation systems. At present it is a manufacturer of buses and vans, the supplier of rail transit cars for the San Francisco Bay Area Rapid Transit District (BART), and the Washington, D.C. Metro System (WMATA), and is pursuing advanced transportation systems such as tracked air cushion vehicles, turbine powered trains, magnetically levitated vehicles, and monorail vehicles. These activities are carried on as internally funded R & D projects in addition to projects funded by the Federal government. This investment in internally funded research and development manifests itself in patents and confidential technological information which is contained not only in documentation but in employees' minds. The success of utilizing these assets depends upon the utilization of this secret technological information to create a profit for the company and its shareholders and thereby warrant continued expenditures on inventions and innovations.

If the reliance that has been placed on trade secrets has been misplaced and contracts to maintain proprietary information confidential were to be held unenforceable, the effect upon Rohr would be catastrophic.

The first example of the mischief that affirmance of the Sixth Circuit would visit upon Rohr relates to its invention agreements with its employees. Rohr maintains agreements with each of its employees under which the employee agrees to maintain in confidence during his employment and subsequent thereto certain proprietary information which is imparted to him by the company. The agreement contains no other post employment restrictions. If these employment agreements were to be held unenforceable with respect to the requirement to maintain Rohr proprietary information confidential upon termination of the employment relationship as a result of affirmance of the Sixth Circuit, a competing domestic or foreign business would be free to pirate Rohr's employees by the payment of a higher salary. While many employees would remain loyal, another employer would place a value on an employee's services which would not be commensurate with the value of the services the employee would normally perform but which would be tied to the employee acting as a conduit for the proprietary technological information of his former employer. The piracy of Rohr's employees would cause a corresponding pressure upon it to respond in kind in order to survive in an environment which did not place value upon good faith and fair dealings in business practices. Thus, the incentive to invest in further research and development in aerospace and mass transit vehicles would be totally destroyed since as a practical matter Rohr would be unable to assure protection for even a limited time the fruits of that research and development.

While the patent system does afford a means of protection, this protection is limited by covering only patentable inventions, coming into force after a period of time, and being expensive to procure and uncertain in application. If the Sixth Circuit were to be affirmed,

the Rohr management in fulfilling its responsibility to its shareholders would have to seriously reevaluate its continued expenditure of funds for research and development of alternate means of mass transit and for aerospace systems since there would be only very limited protection provided for the results of such expenditures. Very probably, only very limited funds would be expended toward new innovations and reliance would be placed upon government funded projects.

Another serious consequence of affirmance of the Sixth Circuit would be the impact upon the licensing activities of Rohr. Any company has limited resources with which to pursue research and development projects. However, a company may have a manufacturing facility in which to produce a product, but not have the resources to undertake the innovation of a product to manufacture in its facility. Thus, a company would be agreeable to licensing the use of secret technological information of another company to manufacture the product for sale by it.

While a pole lamp, for example, may be easily reverse engineered and copied for manufacture if not protected by valid patents, it is quite another thing to contemplate the reverse engineering of a mass transit vehicle which incorporates parts and components from several hundred different manufacturers as well as the overall system design by the prime manufacturer. Thus, Rohr was willing to enter into a license agreement with a foreign manufacturer for receiving secret technological information from the foreign manufacturer to produce in one of its facilities an advanced transit vehicle which was heretofore not available in the United States. Considering that the inventions relating to this vehicle, while possibly patentable, are only covered by pending appli-

cations which may not issue as patents, the consideration was the secret technological information which would enable Rohr to manufacture this vehicle.

An obligation undertaken by Rohr in this agreement was to maintain the secret technological information in confidence in order that this information would not become immediately available to competitors of the foreign company after being imparted to Rohr. If the Sixth Circuit is affirmed, there is the immediate problem of fulfilling the obligation of confidence to this particular foreign manufacturer but also whether a future similar agreement could be entered into in good faith with any other foreign manufacturer since Rohr could not fulfill this obligation of confidentiality or, in fact, trust in being able to fulfill a contract for manufacture of the vehicles in the United States due to potential loss of its employees to piracy upon their learning the confidential technological information imparted by the foreign manufacturer.

Similarly, Rohr as the world's leader in the manufacture of modern lightweight rail transit cars entered into a contract with a foreign manufacturer for the licensing of its secret technological information for manufacture of this advanced rail transit car for use in the subway system of a European capitol. Could Rohr contemplate entering into such a license agreement in the future in the event the Sixth Circuit is affirmed? A foreign manufacturer, unless compelled by a duty of good faith and fair dealing prevalent in its own country would certainly consider pirating the secret technological information of Rohr which it had spent millions of dollars in developing, especially since the Federal Patent Law would be of no assistance in protecting the wrongful appropriation of Rohr's secret technological information.

This particular license agreement also requires Rohr to generate additional technological information based on its present information to adopt its car to certain foreign requirements. Rohr would have serious difficulty in justifying the undertaking of such a license agreement in the future as an acceptable business risk since the employees required to generate the additional information as well as perform the "show-how" aspect of the agreement would be subject to raiding at any time by a pirating manufacturer who wished to appropriate Rohr's confidential technological information without due compensation.

If Rohr's confidential technological information were wrongfully appropriated by a competitor of the licensee during the course of this agreement the licensee would understandably not be happy at the prospect of paying license fees for use of this information since its competitor could offer a lower priced vehicle because no license fees would be required. Whether the licensee would continue to pay under these circumstances would be problematical. Thus, Rohr's ability to act as either a licensee or a licensor would be severely impaired if not destroyed.

Another area of future concern for Rohr would be subcontracts. As the world's largest aerospace subcontractor, Rohr performs subcontracts for the nation's airplane manufacturers to build components for commercial airplanes. Obviously, secret technological information is received from these airplane manufacturers in order to perform subcontracts for them. Under the Sixth Circuit decision it would be impossible for Rohr to agree to maintain this technological information in confidence since its employees upon learning of the information would not be bound by enforceable employee agreements from utilizing this information after ceasing

the employment relationship. Unfortunately, imparting secret technological information to a subcontractor would almost be tantamount to a publication.

A further example of an area in which Rohr would be severely injured would be the instance of consultant agreements or agreements to perform research and development on a contract basis. These agreements customarily contain a provision that the party performing the research and development agrees to hold its results in confidence and to transmit them only to Rohr. If the Sixth Circuit were to be affirmed Rohr would be in a quandary as to how to handle these types of agreements. While it is necessary at times to retain consultants for their special skills any special developments by such consultants would be relatively free for disclosure to competitors. It would also be difficult for Rohr to have the work conducted in-house by its own employees since these employees would not be obligated to maintain secret technological information in confidence upon terminating.

In summary, it does not appear that the Congress intended for the Federal Patent Law to preempt the field and that the state has retained residual powers which may be exercised to protect patentable but unpatented secret technological information. The affirmance of the Sixth Circuit would be extremely injurious to Rohr as an example of an American business which relies upon secret technological information and would be extremely damaging to the United States' economy at a time in the history of our nation when good faith and fair dealing should be especially encouraged. It would appear particularly inappropriate for the court to find the state's trade secret laws inoperative to protect secret technological information in the absence of clear

direction by Congress that it had preempted the field, which direction has been clearly lacking in the past.

CONCLUSION

For the foregoing reasons, Rohr submits that the instant opinion erroneously interprets the intent of Congress in exercising its constitutional authority and in order that appropriate incentives for invention and innovation may be preserved, and the progress of science and the useful arts promoted, the judgment of the Sixth Circuit should be reversed.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY, *Plaintiff-Petitioner*

v.

BICRON CORPORATION ET AL., *Defendants-Respondents*

BRIEF OF THE BAR ASSOCIATION OF THE DISTRICT OF COLUMBIA AS AMICUS CURIAE

INTRODUCTION

The opinion of the United States District Court for the Northern District of Ohio is not reported, having been sealed by order of that Court since it discusses the trade secrets in dispute. The opinion of the Court of Appeals (A1-A25) is reported at 478 F.2d 1074.

This brief *amicus* on behalf of the Bar Association of the District of Columbia is submitted pursuant to Rule 42(2) of this Court, upon the written consent of both parties, the originals of which are filed herewith.

CONSTITUTIONAL PROVISION INVOLVED

Congress shall have the power

> To promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries (Article I, Section 8, Clause 8)

QUESTIONS PRESENTED

Briefs of other *amici* will urge upon this Court: that there has been neither a Constitutional preemption in the patent clause nor a Congressional preemption in the Patent Code, *sub silentio,* to repeal common law protection for trade secrets; that the decision below is incompatible with the decisions of other jurisdictions; that it represents an improper extension of this Court's holdings in *Sears, Roebuck* v. *Stiffel,* 376 U.S. 225 (1964), and *Compco* v. *Day-Brite,* 376 U.S. 234 (1964), both of which involved matters in the public domain; and that it is at variance with the Court's recent holding in *Goldstein* v. *California,* 412 U.S. 546 (1973), finding neither Constitutional nor Congressional preemption in the Copyright Code of state statutory law relating to writings of authors.

The Association joins fully in each of the above arguments, but will refrain from reiterating them herein. Rather it will present an equally dispositive but more fundamental argument that the States did not surrender to Congress the power to limit the common law rights of owners of trade secrets. The questions the Association will discuss are:

1. At common law, did the owner of a trade secret have a right not to have it converted to unfair competitive use by another by breach of an express agreement under which a confidential relation was established?

2. If so, did the States delegate to the federal government the power to limit, regulate or terminate this common law right?

3. Would the treaty obligation of the United States (the supreme law of the land) under the Paris Convention be violated by the failure to prohibit conversion of trade secrets "contrary to honest practices in industrial or commercial matters"?

INTEREST OF THE ASSOCIATION

The decision below denies relief for breach of a contractual obligation to preserve the confidentiality of a type of industrial property commonly referred to as trade secrets. A substantial number of businesses throughout the United States have heretofore treated trade secrets as important assets. The Association is vitally interested in the impact of this decision on the future business practices throughout the United States and abroad of the clients of the 4,600 members of this Association.

The Court below acknowledges its decision conflicts with the governing decisions in many jurisdictions. Additionally, the decision directly conflicts with the law of the District of Columbia, upholding legal protection of trade secrets. *Underwater Storage* v. *U.S. Rubber,* 371 F.2d 950 (D.C. Cir. 1966); *Aktiebolaget Bofers* v. *United States,* 194 F.2d 145 (D.C. Cir. 1951). The decision puts in question the continuing validity of *Public Affairs* v. *Rickover,* 284 F.2d 262 (D.C. Cir. 1960) vacated other grounds, 369 U.S. 111 (1962), which held that the common law regulates unpublished writings and the federal Copyright Act regulates published writings. The decision addi-

tionally throws into question several provisions of the District of Columbia Code.[1]

More fundamentally, the Association is fearful that a judicial precedent abrogating of one historic common law right today will be applied tomorrow to destroy the equally historic allied right of an author in his unpublished manuscript, or even the right of a citizen in his private papers.

A point of particular interest to the District of Columbia, being a focal point of much international business activity, is that any major change in the jurisprudence of property rights in an international commodity such as trade secrets would substantially affect agreements heretofore entered into between United States citizens and foreigners, to the detriment of the business reputation and financial reliability of our own citizens.

Most importantly, the Association feels it is the duty of the Bar to raise its voice when a decision appears to condone immorality, or dishonesty, whether it be evidenced by disregard of a solemn pledge or flagrant disregard for the acknowledged rights of others.

The Association has no interest in and expresses no view on the facts of record or the private legal rights of the parties hereto.

STATEMENT

A delicate balance between the interests of inventors, employers, employees and the public has evolved from decisions construing the law governing rights in in-

[1] Sec. 22-1202, "If any agent . . . of any association . . . shall wrongfully convert to his own use . . . anything of value, he shall be deemed guilty of embezzlement . . . ." See also Secs. 2-1027, 2-1890, 22-1204, 22-2201, 22-2203, and 22-2205.

ventions. These rights were expressed with clarity by Judge Holtzoff in *Aktiebolaget Bofers* v. *United States,* 93 F.Supp. 131, (D. D.C. 1950), *aff'd.* 194 F.2d 145 (D.C. Cir. 1951):

> "Property rights in an unpatented secret process are circumscribed and limited. The owner of such a process has a right not to have the secret made public by theft, by bribery or stealth, or by breach of a confidential relation, such as that of an employer and employee. The person who obtains the secret in such an illegal manner commits a tort. So long as the secret remains intact, anyone who invades it, is guilty of a tortious act.
>
> "On the other hand, once a secret process becomes public, provided the disclosure is not obtained by unlawful means, the property rights in the secret come to an end. The information that had previously been private is thrown into the public domain. If the person who originally owned the secret desires to maintain a monopoly, he must have recourse to the patent laws . . . ."

The law has likewise carefully balanced the legitimate interests of the employee in utilizing his skills and experience versus the equally legitimate interests of the employer in his peculiar trade secrets which enable him to compete effectively.

The results of this balance of rights are beneficial to all segments of society. Investors, employers and employees may deal openly with one another. Investors need not fear the destruction of their capital, gainful employment is promoted for those of talent and the public is benefitted by new products and services.

The decision below does not question the parameters of the State regulation or assess its benefits. It does

not seek a better balance. Rather, the decision below, on the basis of an assumed federal preemption, cuts asunder these myriad relationships and rights leaving intact no certain residuum of any.

SUMMARY OF ARGUMENT

The common law has historically protected the rights of owner's of trade secrets against theft or breaches of confidence. The complementary common law right of the public to the free use of inventions which would otherwise have passed into the *public domain* has been limited since the Statute of Monopolies by grants of patents to inventors.

In the Constitutional patent clause, the States delegated to the federal government only the power to limit the rights of the public to inventions which have passed into the public domain. No delegation was made by the States of their power to protect or limit the rights of their citizens in trade secrets and no act of Congress has presumed to exercise such a power.

The Constitution requires the Federal and State Governments to abide by treaties as the supreme law of the land. The Paris Convention of 1883 as ratified both on the basis of the text at Lisbon in 1958 and Stockholm in 1967 is such a treaty and requires the Federal and State Governments to provide protection to owners of trade secrets which have been used commercially against dishonest business or commercial practices.

ARGUMENT

I. The Right To Protect Secret Inventions Is Created by Natural Law, Secured by Common Law and Terminated by Publication.

The right of an inventor like those of an author in his unpublished work is a right of natural law.[2] A moment's reflection indicates this is no profound insight. This work, from its creation, is in the sole possession of its creator. It can be alienated only by voluntary act, tortious conversion, or legal fiat.

The common law right of an inventor to practice his invention secretly was recognized by the early English Courts[3] and by Blackstone.[4] The right in America was expressly recognized by both Justice Story[5] and

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[2] Robinson, *Patents for Inventions*, Section 28 (1890) Honorable John J. Parker, *Recurrence to Fundamentals*, 27 J. Pat. Off. Soc'y. 12, 16 (1945). As Noah Webster, the soon-to-be author of the first copyright and patent act, stated:

> "The productions of genius and the imagination are if possible more really exclusively property than houses and land." (American Magazine, February 1788)

[3] *Darcy* v. *Allin*, Noy, Rep. 173 (74 Eng. Rep. 1131, 1137) (1602).

[4] Bl. Comm. 405 (Eighth Ed.),

> "When a man by the exertion of his rational powers has produced an original work, he has clearly the right to dispose of that work as he pleases, and any attempt to take it from him . . . is an invasion of his right of property."

[5] 2 Story's Eq. Jur. Sec. 1283 (14th Ed.):

> "Courts of equity will restrain a party from [disclosing secrets of trade] communicated to him in the course of a confidential employment."

Chancellor Kent[6] and both assumed[7] and stated[8] in early cases before this Court and state[9] and federal[10] courts.

This common law right of a creator is simply not a monopoly.[11] A later creator has an equal right to use of *his* invention[12] albeit identical, and once the invention is published, it passes into the public domain,

---

[6] Kent's Comm. 365 (14th Ed.):

> "Another instance of property acquired by one's own act is that . . . of mechanical inventions . . . As long as these are kept within the possession of the author, he has the same right to exclusive enjoyment of them as of any other species of personal property . . . ."

[7] *Wheaton* v. *Peters,* 8 Pet. (33 U.S.) 591, 658 (1834). Justice McLean assumed the common law protection of unpublished inventions, like copyrights, in arguing that the acknowledged loss of protection by publication of the former must result in a similar loss for the latter.

[8] *United States* v. *American Bell Telephone,* 167 U.S. 224, 240 (1897):

> "The inventor is one who has discovered something of value. It is his absolute property. He may withhold knowledge of it from the public . . ."

[9] *Peabody* v. *Norfolk,* 98 Mass. 452, 96 A.D. 664 (1868): "If he invents or discovers, and keeps secret, a process . . . he has a property in it, which a court of chancery will protect . . . ."

[10] *MacBeth-Evans* v. *General Electric,* 246 Fed. 695, 699 (6th Cir. 1917): "MacBeth . . . possessed the right to practice his invention in secret and for profit . . . ."

[11] "Monopoly" derives from the Greek words for *alone* and *to sell.* To use Judge Parker's analogy, *supra* Note 2, the trade secret right is no more a monopoly than is a person's possessory right to wear or to sell his coat.

[12] Writings of Thomas Jefferson (Wash. Ed.) Vol. VI, p. 180 (1814).

and the public at large may use it.[13] The right therefore is part of the common law and is not in derogation of the rights of any member of the public.

II. The States Did Not Delegate Any Power To Regulate Rights in Secret Inventions.

There is no question that the Constitutional patent clause and the successive patent acts changed the common law rights of both inventors and the public. Similarly, there is no question that the founding fathers were aware of the change being made in the common law and were uncommonly able to express their intentions.

Examine the Constitutional patent clause. Did it say the Congress shall have the power to promote the progress of useful arts:

> "by taking at any time from inventors the right to their discoveries."?

To the contrary, the chosen policy and sole Constitutional power given to Congress was to promote the progress of useful arts:

> ". . . by securing for limited times to inventors the exclusive right to their . . . discoveries." [14]

The language is admissible of only one construction. Congress was authorized to "secure", i.e., expand, inventor's common law rights—for a limited time—against both later inventors and copiers. The power given Congress was to *grant* a statutory right to *inventors* (and authors) and to concomitantly *limit* a

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[13] *Wheaton* v. *Peters, supra* at 659.

[14] The Constitution, Article 1, Section 8, Clause 8.

right of the public.[15]—to use that which otherwise would have been in the public domain under the common law.

Were there any question that Congress had the power, or had exercised that power to *limit* common law rights of inventors, surely it would have appeared in the extensive arguments in *Gibbons* v. *Ogden,* 9 Wheat. (22 U.S.) 1 (1824) in which the Court was presented with the Constitutional dimensions of the patent power, as well as the interstate commerce power.[16]

Later, this Court decided *Grant* v. *Raymond,* 6 Pet. (31 U.S.) 218 (1832), which the Court below cites as support for its "taking of common law rights" theory. Justice Marshall's opinion would appear to the contrary: "The purpose . . . *to confer* . . . an exclusive right . . ." (p. 241); "The *public yields* . . . (what it) agreed to yield" (p. 242); and, as quoted in the opinion below, "the means it employs are the *compensation* . . ." (p. 243).

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[15] There can be no question that the English statutory precedents, the Statute of Anne, 8 Anne Chap. 19 for authors, and the Statute of Monopolies, 21 James 1, Chap. 3 for inventors, were solely grants to and not limitations upon authors and inventors. If the Constitution intended to abandon this heritage, would this Court in expounding this Clause of the Constitution have relied on the Statute of Anne in *Wheaton* v. *Peters, supra* at 656, or relied on the Statute of Monopolies in *Pennock* v. *Dialogue* 2 Pet. (27 U.S.) 1, 18 (1829)?

[16] At issue was whether the State grant to the originators of the steamboat conflicted with either the Constitutional interstate commerce power or the patent power. Both issues were extensively argued (although this Court restricted its opinion to the former) and no suggestion of abrogation of common law rights of unpublished inventions was made by either party.

The following year the Court in *Wheaton* v. *Peters, supra,* rested its decision about copyrights on the assumed parallel common law rights of inventors in their unpublished inventions.[17]

The interplay of common law and the patent law was clearly presented in *Gayler* v. *Wilder,* 10 How. (51 U.S.) 477 (1850). From at least 1831 to 1838 one Conner used the invention (a fireproof safe) in his foundry, and its construction was known to the workmen. In 1839, Fitzgerald independently reinvented the safe and obtained the patent in suit. The Court approved an instruction to the effect that if the Conner safe had been forgotten and abandoned, then Fitzgerald was the legal original inventor.

If counsel for defendant had believed that the Court would have accepted the argument that the federal patent laws preempted, limited or terminated the common law rights of Conner in favor of the public, he certainly would have made it. As Conner had failed to apply for a patent, a taking of his rights in his invention, a dedication to the public, would have precluded the later inventor from obtaining a patent.

If a prior secret invention is not dedicated to the public, barring a later patent, then *ex necessitate,* that prior secret invention can vest no rights in a disloyal employee who violates his freely assumed trust.

III. The Right To Copy Does Not Subsume the Right To Convert.

Freedom of competition is a basic political tenet of this country. This Court has correctly found in the

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[17]See Note 7, *supra.*

Constitutional patent clause an expression of public policy consistent with this tenet.

This public policy is that neither Congress, nor the states, may grant a monopoly in lesser inventions, "whose effects are to remove existent knowledge from the public domain," *Anderson's Black Rock* v. *Pavement*, 396 U.S. 57 at 61 (1969). A state may not by law prohibit this copying of what is already in the public domain, *Sears, Roebuck* v. *Stiffel*, 376 U.S. 225 (1964).

Likewise when an invention has passed into the public domain, by being disclosed in an expired patent, a contract prohibiting free use is contrary to the policy of the patent laws. *Scott* v. *Marcalus*, 326 U.S. 249 (1945).

Most recently this Court has held that a patent licensee may contest his liability by asserting the knowledge was in the public domain. *Lear* v. *Adkins*, 395 U.S. 653 (1969). In this Court's words:

> "Enforcing . . . would undermine the strong federal policy favoring the full and free use of ideas in the *public domain.*" (Emphasis added.)

Each of these decisions has adhered to an uncompromising standard which is that once an invention is (1) in the public domain, and (2) either beyond the patent term or below the patent standard, neither State action nor private contract can bar the complete freedom of use by the public of the invention.

No prior decision of this Court, however, has limited the common law rights for unpublished inventions (or writings) not in the public domain.

In this case a State statute expository of the common law is involved. The ambit of both the statute

and the common law only reach but do not go beyond the boundary of publication.[18]

The federal policy is to encourage the inventor to cross that line in a timely manner. Once he has made that fateful step, he acquires all of the statutory benefits and is subject to all of the limitations of federal policy. Until that point, he is within the purview of historic common law and recent expository State regulations.

IV. The Decision Below Conflicts with the Paris Convention

To the extent that there is any preemption of the subject matter of the present litigation, it could exist only under Article VI of the Constitution of the United States, which provides that treaties shall be the supreme law of the land. The 1958 Lisbon Ratification of the Paris Convention of 1883, 13 U.S.T. 1, includes Articles 10 (bis) obliges the Federal Government as well as the states to grant relief for "acts contrary to honest practices in industrial or commercial matters . . . ."

Since the common law in the United States as pronounced in many Federal Circuit Court and State Court opinions (other than the opinion under review) already provides protection against dishonest practices such as violation of the confidentiality of trade secrets, no enabling legislation, either state or federal, is re-

[18] If a party enters into a contract for the use of a property right and thereafter converts the property to his own use outside the terms of the contract, action lies at law for the breach. On the other hand, if the property is so used as to compete unfairly with the owner of the property in the course of the breach, an action also lies in tort for the conversion. In either case, the wrongdoer cannot be allowed to profit from his own dishonest act.

quired to implement Article 10 (bis) of the Paris Convention. *Bacardi Corp.* v. *Domenech,* 311 U.S. 150, 161 (1940). Therefore, that provision of the Treaty was self-executing upon ratification.

Failure to protect the owners of trade secrets from conversion by a party in contractual privity with the owner is clearly an act "contrary to honest practices in industrial and commercial matters" within the meaning of the Paris Convention and should, therefore, be enjoined.

THE PRACTICAL CONSEQUENCES

Leaving aside the theoretical legal problems, there are several practical problems this decision creates, which this Association in its position as *amicus* desires to discuss with the Court.

A. Unsettled Contractual Rights

Virtually all scientists and engineers and a vast number of businessmen are today subject to one or more confidential disclosure agreements, either by formal contract or by force of law. Indeed, every employee, those of this Court not excepted, is under a heretofore unquestioned duty of loyalty to his employer's confidences. This decision draws no clear line identifying those very personal relations which are severed. The decision will unsettle a vast number of private dealings affecting people of all stations in life.

B. A Compulsory Patent Right

The common law rights of inventors are benign rights that impinge on no other person's rights. Relying on such rights many manufacturers decide to forego patent protection when they create some-

thing of value, thereby allowing their competitors, who divine it by fair means, unfettered use of it. They are subject to no legal expense and neither are their competitors, for one can never infringe on another's common law rights with one's own legitimate discoveries.

The decision below mandates that every businessman subject himself to the expense and uncertainty of the statutory patent right to prevent theft or embezzlement. If he succeeds, he has acquired at considerable expense a right of exclusion which he never really wanted. What public policy is promoted by encouraging a flood of patent applications on *these* inventions?

The burden on the businessman, the Goverment, the Courts, and the public of the *mandatory* patenting to prevent piracy are too clear to require explication.

C. A Regressive Step

We pride ourselves on being a law abiding people. This decision below says nothing less than we are fools for trusting others and our employees are fools for not violating our confidences to their profit. The consequence of this retreat from the rule of law is apparent. Communications will be stifled. Expensive and inhibitory security will be mandatory. Suspicion will replace trust. The law will be held in contempt by the law abiding as well as the lawless.

D. Out of a Wrong, No Right . . .

In what book or place may the public find these secrets of plaintiff? In what Court and by what form of pleading does the public exercise its rights to them?

The answer of the decision below is in the Court of Self-help by the action of breach of duty and embezzlement.

The Record of the District Court is quite properly sealed. The net effect, however, is to give defendant what no other member of the public has or can by legitimate means obtain. It is a title based solely on fraud, fully as effective against the public as is that of the original owners.

An equal vice of this decision is it effectively confirms rights to the architects and directors of frauds such as these while this Court condones retaining the sanctions of the criminal laws, against those who commit similar wrongs against the property rights of others, e.g., *Goldstein* v. *California, supra, Greenwald* v. *United States,* No. 73-24 (Sup. Ct. *cert. den.* Oct. 9, 1973)

CONCLUSION

The decision of the Court below should be reversed.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY, *Petitioner*,

v.

BICRON CORPORATION, ET AL., *Respondents*.

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

BRIEF FOR AMICUS CURIAE MANUFACTURING CHEMISTS ASSOCIATION

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BRIEF FOR AMICUS CURIAE MANUFACTURING CHEMISTS ASSOCIATION

INTRODUCTION

Manufacturing Chemists Association ("MCA") is filing this brief *amicus curiae* with the consent of all parties. Letters evidencing such consent have been filed with the Clerk of this Court.

The Court of Appeals for the Sixth Circuit has ruled that the trade secret law of the State of Ohio—and, by

the Court's reasoning, of the other States which have similar laws—is preempted by the United States Constitution and the Federal patent law. *Kewanee Oil Co.* v. *Bicron Corp.*, 478 F. 2d 1074 (6th Cir. 1973). This Court has issued a Writ of Certiorari to the Sixth Circuit to review that opinion.

MCA submits that the opinion of the Court below is erroneous as a matter of law and public policy and would, if upheld by this Court, have a significant adverse effect on business customs and ethics, the continued vitality of the chemical industry, and the health of the American economy generally. Accordingly, MCA vigorously supports the position of Petitioner, Kewanee Oil Company, and urges this Court, in accordance with its earlier decisions and those of the Courts of Appeals of the Second, Fourth, Fifth, and Ninth Circuits, to reverse the opinion of the Sixth Circuit.

INTEREST OF MCA

MCA is a non-profit trade association of more than one hundred seventy companies, large and small, engaged in manufacturing industrial chemicals and allied products.[1] MCA member companies account for more than 90 percent of the production capacity for basic industrial chemicals in this country. Total shipments of chemicals and allied products in the United States in 1972 were valued at more than $57,000,000,000.

The opinion of the Court below, if upheld by this Court, would have a particularly damaging effect on the chemical companies of the United States. Technology is the very business of these firms. In 1971, for

[1] A list of MCA's members is set forth in Appendix A to this Brief.

instance, chemical manufacturers alone financed $1,703,000,000 worth of research and development.[2] Chemical companies' profits are derived from and depend upon their advancing technology, improving manufacturing processes, and developing new and improved products. In devoting the large amount of funds they do to technological research and invention, chemical companies rely not only on patent protection but also on the sanctity of trade secrets, the protection granted them, and the binding nature of contracts relating to them. These trade secrets are estimated by MCA members to be worth billions of dollars.

If the opinion of the Sixth Circuit should be upheld by this Court, it would substantially undermine, and perhaps destroy, the value of existing technological secrets. It would have a major adverse effect on the future conduct of research by the chemical industry, as well as industry generally, with detrimental effects upon the entire American economy and society. For the innovations, developments, and other improvements which result from research are critical to the growth of the American economy.[3]

The amount of money spent on research and development in this country has grown immensely in the past two hundred years. In recent years, the upward trend is dramatic. Between 1955 and 1971, the total of such

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[2] National Science Foundation, *Research and Development in Industry 1971* NSF 73-305, at 36, 37 (1973).

[3] "The principal factors through which a free market promotes growth are investment in plant and equipment, and *research leading to technological advance.*" Wallich, "The Employment Act Objectives—After 20 Years," Joint Economic Committee, 89th Cong., 2d Sess., 20th Anniversary of the Employment Act of 1946: An Economic Symposium 12, 14 (Comm. Print, Feb. 23, 1966) (emphasis added).

expenditures quadrupled, increasing from $4,640,000,000 to $18,314,000,000.[4] Industry financed $10,974,000,000 of the 1971 total (or 60 percent).[5] The National Science Foundation has estimated that industry financing of research and development will increase to approximately $14,000,000,000 by 1975.[6]

Certainly, firms would not undertake such investments if they did not expect to benefit from the results. And trade secret protection is, as the President's Council of Economic Advisers recently pointed out, an important legal mechanism for enabling the entrepreneur to benefit from his efforts; it permits him "to internalize benefits that otherwise would accrue outside his firm."[7]

There are no publicly available data which show the proportion of innovations protected by trade secret laws. Two commentators, however, have estimated that:

> "[T]he volume of proprietary information classifiable as *trade secrets* . . . [has] *increased prodigiously in the past generation* . . .
>
> "*The order-of-magnitude increase in the inventory of trade secrets* . . . is traceable, in large part, to the impressive gains made in research and development activity, under both private and public auspices, since World War II. These gains have been accompanied by significant growth in the number of scientists, engineers, and technical

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[4] National Science Foundation, *Research and Development in Industry 1971, supra,* at 26.

[5] *Id.* at 26, 37.

[6] National Science Foundation, Science Resource Studies Highlights, NSF 73-301, at 1 (1973).

[7] *Economic Report of the President, Transmitted to the Congress January 1972* 127 (1972).

> support personnel engaged in industry. *Billions of private dollars,* in addition to larger sums of public money, have come to be spent annually in the design, realization, and improvement of processes and products destined for business, Government, and households."[8]

But dollar volume is not the only measure of the value of trade secrets in the chemical industry and industry generally. Trade secret laws are an affirmative factor in stimulating competition. Firms rely on their protection in deciding to engage in expensive research in order to develop for their own benefit more efficient processes or newer, better, or cheaper products than those of their competitors. "[T]rade secrets constitute one of the innumerable fields in which positive competition operates in our kind of society."[9] The important form of competition, as Professor Schumpeter has emphasized, is "the competition from the *new commodity,* the *new technology,* the new source of supply, the new type of organization . . . competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of existing firms but at their foundations and at their very lives."[10]

The greater the number of companies which engage in research and development efforts, the greater are the opportunities to develop improved products or substitute products, with an accompanying improvement in general economic well-being. The multiplying

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[8] Harris and Siegel, "Trade Secrets in the Context of Positive Competition," 10 *Idea* 297, 308 (1966) (emphasis added).

[9] *Id.*

[10] Schumpeter, *Capitalism, Socialism and Democracy* 84 (3d ed. 1950) (emphasis added).

numbers of new or substitute products developed in the chemical, drug, and electronics industries point to the advantages of having many firms— large and small— engaged in research activities. Moreover, new products make possible competition across existing industry lines as well as within an industry, as the development of plastics and synthetic fibers has so well demonstrated.

As shown below, the Sixth Circuit's opinion, if upheld, would apply to such a broad range of technological information (*i.e.* "patentable" subject matter) and would foster such a wide range of improper conduct that its effect would be devastating. It would directly jeopardize billions of dollars worth of technological secrets, which have been developed in reliance on the validity of trade secret laws and judicial decisions upholding such laws, and which would immediately become subject to misappropriation with impunity. Its inevitable result would be the technological rape of the chemical and other vitally important segments of American industry.

An even more basic consequence of this destruction of trade secret protection would be prospective. It would reduce the amount of research conducted in those technological areas where a firm does not believe the results will qualify for a patent. A firm is less likely to spend millions of dollars to develop know-how—and the variety of minor improvements of that know-how which make it continuingly current and valuable—if the law should permit another person or company to pirate it with impunity. As a result, research efforts would almost certainly be reduced or at least focused primarily on areas which management believed would yield inventions that could be protected with patents.

Yet the fact that an invention may satisfy the criteria for the grant of a patent does not necessarily mean that it is more valuable, or even more ingenious, than if a patent may not be granted. Thus, under the decision below, the allocation of resources for research and development would be determined not by the requirements of technology and the discipline of economics, but by the arbitrary diktats of uncertain law. The reduction or rechanneling of research would tend to reduce competition (and thus have a leveling effect among firms), slow technological progress, and impede the growth of the economy.

In addition, the relative position of the American economy in the world would deteriorate. The effect of the instant opinion would not be limited to the misappropriation of trade secrets by American individuals or companies. It would permit foreign competitors to obtain technological secrets of American firms by means heretofore judged to be improper, while the foreign firms would be able to maintain the secrecy of their own information. At the same time, the foreign firms would retain the incentive to continue investing in technological research, and the incentive of American companies to keep abreast would be reduced. The net result would be the unjust enrichment of foreign competitors at the expense of American industry, the export of fewer American goods—but more American jobs—and a severe deterioration in America's balance of payments position.

SUMMARY OF ARGUMENT

The Sixth Circuit opinion removes the protection the law traditionally has afforded trade secrets. It encourages and rewards industrial espionage and other forms of predatory conduct which heretofore have

been considered improper. As a result, it jeopardizes the continuing viability of all technological trade secrets and, if upheld, would destroy a legal and economic framework on which American industry has long relied.

The opinion below is totally without precedent, and contravenes the applicable law enunciated by this Court and by the Courts of Appeals of four Circuits. In particular, the most recent decisions of this Court that might be deemed relevant, and which were relied upon by the Sixth Circuit, provide no support for its opinion.

The Constitution did not remove from the States the authority to protect trade secrets by law. The only remaining question, then, is whether such laws must be preempted by the Federal patent law. A State law will be held to be preempted only if there is a compelling reason to do so; this Court will not struggle to find preemption. Here, there can be no doubt that a holding of preemption is neither required nor warranted.

The trade secret laws do not conflict with the patent law. They do not apply to, and thus in no way restrict, the operation and effectiveness of a patent granted on a particular invention. The protection they offer does not conflict with the policies of the patent law. Trade secret laws merely protect private information from use or disclosure by improper means, as other laws prevent the taking of tangible property by improper means.

Trade secret laws grant no monopoly and no exclusive right, as the patent law does. Any person who by fair means makes or learns of a discovery which is the subject of another person's trade secret can use it. The

patent law, on the other hand, grants the inventor the right for seventeen years to exclude all others from using the patented invention even if another person discovers it independently.

The Court below found a supposed conflict with the patent law in that the trade secrets in issue had been in commercial use for more than one year. To be sure, an invention which has been in commercial use for more than one year is ineligible for a patent, because it is deemed to have been in "public use" as that term is used in the patent law. It may be argued here, however, that commercial use for more than one year places an invention in the public domain, and thus that trade secret protection of it conflicts with the patent law. But this assertion would be erroneous. An invention which has been used commercially but in secret for more than one year is *not* in the public domain.

Congress has provided that in exchange for the benefits conferred by the grant of a patent, the inventor must disclose his invention to the public. But there is no policy in the patent clause of the Constitution or in the patent law which requires that non-patented information be made public. An inventor is entitled, if he elects to forego patent protection or is unable to obtain it, to try to keep his invention secret. The patent clause grants Congress no authority to require inventors who do not obtain a patent to reveal their private information; and Congress, in almost 200 years of patent history, has not attempted to exercise any such authority.

Congress thus has manifested no intention that the trade secret laws be preempted. Indeed by numerous enactments, including a provision of the patent law itself, Congress has expressed its desire that trade

secrets be respected and that the laws protecting them should be observed by the Federal Government.

ARGUMENT

I. THE OPINION OF THE SIXTH CIRCUIT WOULD UPSET LONG-STANDING LEGAL PRINCIPLES AND INDUSTRIAL PRACTICES TO THE SERIOUS DETRIMENT OF AMERICAN INDUSTRY AND THE NATIONAL ECONOMY.

A. Protection of Trade Secrets is a Longstanding Principle of the Common Law.

Ohio's trade secret law provides, by statute, that no person:

> (a) "shall, with intent to deprive or withhold from the owner thereof the control of a trade secret, . . . obtain possession of . . . a trade secret" or
>
> (b) "having obtained possession of an article representing a trade secret or access thereto with the owner's consent, shall convert such article to his own use or that of another person . . ."[11]

Criminal penalties are prescribed for violations of these provisions.[12] Injunctions may also be obtained; in particular, an employer may obtain an injunction to bar a former employee and his new employer (like Respondents in the instant case) from disclosing or using trade secrets learned by the departed employee in the course of his employment.[13]

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[11] 13 Ohio Rev. Code Ann. § 1333.51 (Supp. 1972). See also *W. R. Grace & Co.* v. *Hargadine*, 392 F.2d 9 (6th Cir. 1968), and authorities cited therein.

[12] Ohio Rev. Code Ann. § 1333.99(E) (Supp. 1972): "Whoever violates section 1333.51 of the Revised Code shall be fined not more than five thousand dollars, imprisoned not less than one nor more than ten years, or both."

[13] *B. F. Goodrich Co.* v. *Wohlgemuth*, 117 Ohio App. 493, 192 N.E. 2d 99 (Ct. App. 1963); *Curry* v. *Marquart*, 133 Ohio St. 77, 79, 11 N.E. 2d 868, 869 (1937) (dictum).

This statute codifies a doctrine of the common law that has long been in effect in Ohio,[14] and in other States, and adds criminal sanctions. The genesis of this doctrine lies so early in our law that it cannot be identified with precision; but it clearly lies deep in the roots of the common law.[15] As the opinion of the Sixth Circuit recognized, 478 F. 2d at 1080-81, English cases affirming the validity of trade secret protection can be found as early as 1820, *Yovatt* v. *Winyard*, 1 Jac. & W. 394, 37 Eng. Rep. 425 (Ch. 1820).[16]

Similarly, the early cases in the United States demonstrate the strength of this doctrine as a long-standing principle of common law.[17] As such, trade secret protection presumably is provided by every State; in at least thirty-six States it has been speci-

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[14] See *Cincinnati Bell Foundry Co.* v. *Dodds*, 10 Ohio Dec. Reprint 154 (Super. Ct. 1887).

[15] A similar doctrine was recognized in the Roman Empire, A. Schiller, "Trade Secrets and the Roman Law; The *Actio Servi Corrupti*," 30 Colum. L.Rev. 837 (1930).

[16] See also, *Newbery* v. *James*, 2 Meriv. 446, 35 Eng. Rep. 1011 (Ch. 1817); *Williams* v. *Williams*, 3 Meriv. 157, 36 Eng. Rep. 61 (Ch. 1817); *Abernethy* v. *Hutchinson*, 3 L.J. Ch. 209, 213, 219, 47 Eng. Rep. 1313 (Ch. 1825) (literary property); *Cholmondeley* v. *Clinton*, 19 Ves. 261, 34 Eng. Rep. 515 (Ch. 1815) (client secrets obtained by solicitor in confidence).

[17] See, *e.g.*, *Peabody* v. *Norfolk*, 98 Mass. 452 (1868); *Jarvis* v. *Peck*, 10 Paige 118 (N.Y. Ch. 1843); *Hammer* v. *Barnes*, 26 How. Pr. 174 (N.Y.S.Ct. 1863); and 2 Story, *Equity Jurisprudence* § 952 (1st ed. 1836), wherein Justice Story stated the established rule:

> ". . . Courts of equity will restrain a party from making a disclosure of secrets, communicated to him in the course of a confidential employment. And it matters not, in such cases, whether the secrets be secrets of trade, or secrets of title, or other secrets of the party important to his interests."

fically recognized by the courts.[18] The Restatement of Torts, moreover, affirms trade secret protection:

> "One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if (a) he discovered the secret by improper means, or (b) his disclosure or use constitutes a breach of confidence reposed in him . . ." Restatement of Torts § 757 (1939).

At least twenty-one States, in addition, have enacted statutes adding criminal law sanctions to the common law protection.[19]

This Court has recognized the laudable policies behind State trade secret laws on numerous occasions. In *Fowle* v. *Park,* 131 U.S. 88, 97 (1889), it upheld a contract involving a secret formula for the production of a medicine because "[t]he policy of the law is to encourage useful discoveries by securing their fruits to those who make them." And in *Board of Trade* v. *Christie Grain & Stock Co.,* 198 U.S. 236, 250 (1905), Justice Holmes analogized market quotations to trade secrets and said that the originator had "the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they might, does not authorize them to steal the plaintiff's."

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[18] Citations of opinions recognizing the law of trade secret protection in all contexts, including non-technological ones, are set forth in Appendix B to this Brief. In no state has a case been found rejecting or disapproving the doctrine.

[19] Such statutes are listed in Appendix C to this Brief. Included among the States enacting such legislation are major industrial States like California, Illinois, Indiana, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Carolina, Ohio, Pennsylvania, and Wisconsin.

In *Dr. Miles Medical Co.* v. *John D. Park & Sons Co.*, 220 U.S. 373 (1911), Justice Hughes, speaking for the Court, had to distinguish the privileges attached to a trade secret from those conferred by a patent. The former were described as follows:

> "The complainant relies upon the ownership of its secret process and its rights are to be determined accordingly. Anyone may use it who fairly, by analysis and experiment, discovers it. But the complainant is entitled to be protected against invasion of its rights in the [secret] process by fraud or by breach of trust or contract." 220 U.S. at 402.

In *E. I. du Pont de Nemours Powder Co.* v. *Masland*, 244 U.S. 100, 102 (1917), Justice Holmes, speaking for the Court, affirmed the grant of an injunction against the disclosure of a trade secret to the defendant's expert witnesses in the course of litigation and said that an employee "shall not fraudulently abuse the trust reposed in him." The Court in *Becher* v. *Contoure Laboratories, Inc.*, 279 U.S. 388, 391 (1929), recognized a cause of action against an employee for his "breach of a contract or wrongful disregard of confidential relations . . ." Finally, in *United States* v. *Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933), the Court held that the inventor "may keep his invention secret and reap its fruits indefinitely."

B. The Opinion Below Would—and in the Present Case, Does—Reward Dishonest and Immoral Conduct.

The trade secret laws are intended and have long been invoked to foster the "old fashioned" commercial values of good faith, honesty, and fair dealing.[20] Thus,

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[20] See, e.g., *du Pont de Nemours Powder Co.* v. *Masland, supra*, at 102; and Restatement of Torts § 757, comment *a* (1939).

they provide a remedy against the taking of valuable trade secret information by breach of contract, theft, or breach of trust.[21] As one court has emphasized, it would be improper for the courts to fail to lend their assistance in protecting against such predatory practices:

> "It would be a reproach to any system of jurisprudence to permit one who has received a disclosure in confidence to thus appropriate the ideas of another without liability for the wrong." *Hoeltke* v. *C. M. Kemp Mfg. Co.*, 80 F.2d 912, 923 (4th Cir. 1935), *cert. denied*, 298 U.S. 673 (1936).

The opinion below, however, would promote and encourage a completely different attitude toward private information. Employees who have learned technological secrets by virtue of their employment in a fiduciary capacity with a firm which had financed a discovery would be free to leave that firm, taking its secrets with them—and then exploit that confidential information to their own unjust enrichment in competition against their former employer (as did the Respondent employees in the present case).

The decision would also reward the diverse other forms of improper conduct which trade secret laws seek to prohibit. The rationale of the opinion of the Sixth Circuit would permit—indeed encourage—the disclosure and use of misappropriated "patentable"[22] but unpatented trade secrets, even if the wrongdoer could be prosecuted under the general criminal law.

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[21] See, e.g., G. Doerfer, *"The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy,"* 80 Harv. L. Rev.1432, 1448 (1967).

[22] See discussion of this term, as used by the Court below, at pp. 16-19, infra.

For instance, an industrial spy who broke into a company's safe and photographed a secret formula might be prosecuted for breaking and entering, but absent effective trade secret protection, would be able to exploit the purloined information.

The applicability of the criminal sanctions of the trade secret law enacted by Ohio and by many other States would, it seems, depend on whether the malefactor was fortunate enough to misappropriate "patentable" trade secrets rather than those that were "unpatentable." The "patentable" nature of the material stolen—surely a novel question for the State criminal courts—rather than the intent of the wrongdoer, apparently would determine his fate.[23]

These are not mere abstractions: even under the present law the threat that trade secrets may be stolen is a very real one. Industry spends millions of dollars per year to maintain their security. For, "the need to remain technologically competitive has made industrial theft an attractive alternative to expending funds for research; and research has produced an ever more sophisticated array of technical devices to facilitate theft."[24]

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[23] And if a person were indicted under one of the twenty-one statutes listed in Appendix C, would the prosecution be required to prove non-patentability beyond a reasonable doubt? Would a person who Xeroxed technological trade secret information eleven months and twenty-nine days after the trade secret was used commercially be a felon, whereas another person performing precisely the same act twelve months and one day after such use would be innocent?

[24] Note, "Theft of Trade Secrets: The Need for a Statutory Solution," 120 U. Pa. L. Rev. 378 (1971). A graphic example of the problem posed to industry is found in *E. I. du Pont de Nemours & Co.* v. *Christopher*, 431 F.2d 1012 (5th Cir. 1970). DuPont

C. The Opinion of the Sixth Circuit Would Have Serious Adverse Effects.

1. The decision applies to every trade secret of a technological nature.

The opinion of the Sixth Circuit is broad in scope. In using the term "patentable" to describe the inventions to which its opinion is applicable, it is apparent that the court below encompassed all discoveries relating to the types of subject matter with which the patent law is concerned (35 U.S.C. § 101 (1970)), even though, in actuality, the inventions may not be eligible for the grant of a patent under the specific criteria of that law (35 U.S.C. §§ 102, 103 (1970)). In other words, the effect of its ruling is not limited to those particular inventions which, if pursued in the Patent Office, would result in the actual grant of a patent. As the Court stated, its decision applies to inventions

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had developed, by expensive and time-consuming research, a secret process for the production of methanol. Christopher flew over the DuPont plant while it was under construction and took aerial photographs which revealed DuPont's trade secret. In granting relief under the trade secret law, the Court held that "espionage was an improper means of discovering DuPont's trade secret." The court stressed that "we introduce here no new or radical ethic since our ethos has never given moral sanction to piracy." 431 F.2d at 1017, 1016-1017.

See also, *Telex Corp.* v. *IBM Corp.*, Civil Nos. 72-C-18 and 72-C-89 (N.D. Okla., filed Sept. 17, 1973; amended Nov. 10, 1973) (reported in *CCH Trade Reg. Rep.* No. 91, pt. 2 (Sept. 24, 1973)), wherein the court awarded damages of $21,900,000 to IBM on its counterclaim as a result of Telex's obtaining IBM trade secrets by a "massive and pervasive program designed to induce the breach of known obligations of IBM employees or former employees" in violation of the trade secret law of Oklahoma (Conclusion of Law C45). Telex offered extremely large salaries, bonuses (including one of $500,000—the largest bonus in the history of the company), and stock options in order to hire key IBM employees who would reveal IBM trade secrets (Findings F132-F168).

which are "appropriate *subjects for consideration* under the provisions of Title 35 U.S.C. § 101."[25]

Because the opinion below applies to anything and everything falling within the "subject matter" jurisdiction of the patent laws, it would, if affirmed, apply to every advance in the extensive field of technology and thus, in effect, jeopardize the value of all secret technological information. [26] It would, for instance, apply to every minor refinement in the design of a machine and to every small improvement in a manufacturing process, commonly referred to as "know-how"—which, although new, useful, and valuable, may not be eligible for a patent because it is "obvious" in terms of the patent law.

In the chemical industry, where multistep processes and procedures are common, the judicious combination of "obvious" modifications in individual steps often entails the expenditure of considerable amounts of time and money and confers significant technical and economic advantages—and yet may not satisfy the specific requirements for a patent.[27] The instant opinion would deny the company which invested the funds,

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[25] 478 F.2d at 1078 (emphasis added). 35 U.S.C. § 101 (1970) provides that a patent may be obtained, "subject to the conditions and requirements" of other sections, on "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof . . ."

[26] The decision, of course, does not apply to non-technological secrets, such as customer and supplier lists, marketing projections, and advertising strategies.

[27] Examples are such engineering details as tolerances in forming machine parts, the choice of construction materials, the relative sizing of vessels and pipes, operating conditions for each step of a chemical process, and analytical procedures.

energy, and skill to develop such a technological advance the ability to protect the secrecy of its discovery (after only one year of commercial use) against disclosure to competitors by surreptitious means.

In other words, the Sixth Circuit holds that the patent law prevents a State from protecting a trade secret even if the patent law itself provides no protection.

It may be argued that the Sixth Circuit did not intend its opinion to apply to the entire "subject matter" jurisdiction of the patent law, but only to inventions on which patents could have been obtained, but were not. Even so, the effect of the decision would be severe, and its implementation impossible.

The difficulties—and they are legion—are readily apparent. For instance, an inventor who had not applied for a patent would not know if he held a valid trade secret; that question could be resolved in his favor only by a court's determination, perhaps many years after the event, that he could not have obtained a valid patent. Or an inventor might have been denied a patent by the Patent Office and relied on the trade secret law, only to learn years later, in litigation on the validity of his trade secret, that a patent should have been granted to him—and thus that the trade secret law was preempted as it applied to his invention.

Under such an interpretation of the opinion below, any court in the nation, Federal or State, could be called upon to determine if an invention protected by a trade secret was "patentable"—often without the preliminary determination of the Patent Office. The issue of patent validity is presently a major source of litigation, mainly in the Federal Courts, and raises

complex questions for the courts, even though they have the benefit of the expertise of the Patent Office. If that issue were to be interjected into every case involving the validity of a technological trade secret, the scope, complexity, expense, and uncertainty of trade secret litigation would be greatly increased. In addition, State courts would be called upon to determine whether an inventor was entitled to a patent in many more instances than at present.

What standards would the courts apply in such a Herculean effort? Would they, for instance, employ the criteria for obtaining a patent in effect at the time the invention was made, or at the time the trade secret was violated, or at the time of trial? Who would have the burden of proof—the inventor of a trade secret or the thief who stole it?

But it is not necessary to determine how broadly the opinion should be interpreted or to choose between the alternative interpretations discussed. For, as discussed below at pages 20-40, the patent law does not preempt the trade secret law with respect to any invention, whether "patentable" or not, regardless of how "patentable" is defined.

2. The adverse effects of the opinion are not significantly reduced by its purported limitation to trade secrets which have been in "public use" for a year or more.

The opinion of the Court below purportedly is "limited" to patentable trade secrets which have been in "public use" (a term of art in the patent law) for a year or more and thus, under the terms of 35 U.S.C. § 102 (b) (1970), are not eligible for the grant of a patent. On the basis of this limitation, *amicus curiae* SCM Corporation sought in its brief opposing certi-

orari to discount the significance of the opinion below as only a "single narrow holding."[28]

But this factor does not significantly limit the adverse consequences of the decision.[29] After a year of commercial use, even in secret, every trade secret which might otherwise be eligible for a patent would be ineligible on this ground; at best, this limitation would merely carve out from the adverse effect of the opinion new trade secrets for a one-year period. The number of trade secrets which would thus be protected would be relatively small indeed; MCA members report that the large majority of technological developments that are protected by State trade secret laws have been in commercial use for more than one year.

Therefore, although it invoked the bar of § 102 (b) as a limitation of its holding, the Sixth Circuit's opinion still would jeopardize every technological trade secret except the relatively small category of those which have not been in commercial use for a year—and those would be protected only until the year expired.

II. OHIO'S TRADE SECRET LAW HAS NOT BEEN PREEMPTED BY THE UNITED STATES CONSTITUTION OR BY THE FEDERAL PATENT LAW.

Almost from its very beginning, the Court has been confronted with claims that a State law was preempted by the Constitution and laws of the United States. It has decided scores of cases on this issue, from *Gibbons* v. *Ogden,* 22 U.S. (9 Wheat.) 1 (1824), through *Gold-*

[28] Brief *Amicus Curiae* of SCM Corporation In Opposition to Petition for Writ of Certiorari at 8, No. 73-187 (1973).

[29] Nor, as discussed below at pp. 29-32, does the one-year bar of § 102(b) affect the preeemption question as a matter of law.

stein v. *California,* 412 U.S. 546 (1973). Over this period, this Court has developed certain basic precepts for deciding preemption claims, while at the same time it has emphasized the importance of viewing the competing interests at issue on a case-by-case basis, *Burbank* v. *Lockheed Air Terminal, Inc.,* 411 U.S. 624, 638 (1973).

In essence, those standards establish that the Ohio trade secret law is not preempted by the patent law because:

1. The Constitutional grant of authority to Congress to issue patents did not deprive the States of their power to protect unpatented secret technological information from being wrongfully appropriated to another's use.

2. Congress has not expressed any intention that the patent law preempt the State trade secret laws—indeed its intention has been quite the contrary—and their enforcement does not pose an irreconcilable conflict with the purposes or operation of the Federal legislation.

A. The States Have Retained the Authority to Protect Trade Secrets.

The preliminary inquiry is whether the Constitution grants Congress any exclusive power such as to prevent Ohio from enforcing a trade secret law, even in the absence of any Federal legislation, *Cooley* v. *Board of Wardens,* 53 U.S. (12 How.) 299, 318-19 (1851); *Goldstein* v. *California, supra,* at 552.

By Article I, § 8, cl. 8 of the Constitution, Congress is empowered:

> "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors

and Inventors the exclusive Right to their respective Writings and Discoveries."

Article I, § 8, cl. 8 describes both the objective which Congress may seek, and the means it may use to achieve that goal. No one would contend that the objective is exclusive and that only Congress can promote the progress of science and the useful arts. States may, it would seem indisputable, fund libraries and colleges, establish laboratories, and promote research in a myriad of ways.

Congress was granted a limited, specified power that it might exercise in order to promote science and the useful arts—the right to grant exclusive rights in their works to authors and inventors. As Alexander Hamilton enunciated in Number 32 of The Federalist, States retain all their sovereign powers unless (a) "the Constitution in express terms granted an exclusive authority" to the Federal Government, or (b) it "prohibited the States from exercising the like authority," or (c) the exercise of a similar authority by the States "would be absolutely and totally *contradictory* and *repugnant*" to the Federal power. And the Tenth Amendment to the Constitution expressly confirmed that the States retained all powers not delegated to the United States.

Chief Justice Burger, speaking for this Court, has only recently confirmed, in reviewing State copyright legislation, that Art. I, §8, cl. 8 "does not provide that [the power granted thereby] shall vest exclusively in the Federal Government. Nor does the Constitution expressly provide that such power shall not be exercised by the States." *Goldstein* v. *California, supra,* at 553. And finding nothing repugnant to the Federal

power, this Court concluded that States possess the right to enact copyright legislation in the absence of Federal legislation.

This case involves something far less challenging to Federal law—State trade secret protection. As discussed below at pages 25-27, a trade secret law does not grant the inventor an "exclusive right" to his invention; it merely prohibits private information from being taken from its holder by improper means.

Congress has been delegated no authority by Art. I, §8, cl. 8 to determine what information citizens may or may not keep private; nor has it been delegated any power to determine what kinds of protection are available to maintain that privacy. Moreover, there is nothing in the Constitution that prohibits the States from enacting trade secret laws. And the authority of Congress to grant inventors exclusive rights is not inhibited or otherwise affected by States' exercise of their police power to protect trade secrets by law.

The Constitution itself, therefore, does not in any way limit the rights of States to enforce trade secret laws.

B. The States' Exercise of Their Retained Authority Is Not Preempted by the Federal Patent Law.

Since Congress has exercised the power granted to it by Art. I, §8, cl. 8 by enacting the patent law, the only remaining inquiry is whether the patent law preempts the States' trade secret laws under the Supremacy Clause (Art. VI, para. 2).

A State law is not preempted unless that law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." *Hines*

v. *Davidowitz,* 312 U.S. 52, 67-68 (1941); *Goldstein* v. *California, supra,* at 561. Because preemption entails setting aside the sovereign act of a State, and because the State, unlike the Federal Government, is "powerless to remove the ill effects of our decision," *Penn Dairies, Inc.* v. *Milk Control Commission,* 318 U.S. 261, 275 (1943), a court will not set aside the State law unless the "subject matter permits no other conclusion, or . . . the Congress has unmistakably so ordained." *Florida Lime & Avocado Growers, Inc.* v. *Paul,* 373 U.S. 132, 142 (1963).[30]

1. Trade secret laws do not conflict with the patent law.

The essential holding of the Sixth Circuit was that the State trade secret law "conflicts" with the Federal patent law. The Court founded that conclusion upon two grounds: (a) in respect to technological information, the trade secret law protects a "monopoly" and excludes competition, which are the protections granted by the patent law; and (b) the trade secret law conflicts with a supposed objective of the patent law to provide public disclosure of all inventions, 478 F.2d at 1086.

The following discussion will demonstrate that these two grounds are erroneous—as is another contention which may be made in this Court in an effort to support the decision of the Sixth Circuit.

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[30] See also, *e.g., Head* v. *New Mexico Board of Examiners,* 374 U.S. 424, 432 (1963) ("positive evidence of legislative intent"); *Schwartz* v. *Texas,* 344 U.S. 199, 203 (1952) ("a clear manifestation of intention"); *Rice* v. *Santa Fe Elevator Corp.,* 331 U.S. 218, 230 (1947) ("clear and manifest purpose of Congress"); *Napier* v. *Atlantic Coast Line R. R. Co.,* 272 U.S. 605, 611 (1926) ("The intention of Congress to exclude states from exerting their police power must be clearly manifested.").

a. The Trade Secret Laws Foster No Monopoly and Grant No Exclusive Rights to Inventions.

Congress is authorized by Art. I, §8, cl. 8 to reserve for inventors "the exclusive Right" to their discoveries, for a limited time. It has done so in the patent law, which currently grants the first inventor the right for 17 years to exclude others from manufacturing, using, or selling his patented discovery, 35 U.S.C. §154 (1970). Even if another person makes the same discovery independently and in complete ignorance of the prior invention, he is barred from making, using, or selling his discovery for the life of the patent.

If a State should enact a law for the grant of patents —or other similar form of exclusive right to an invention—it would interfere with the Federal law's effort to promote uniform standards for the types of discovery which are entitled to this particular kind of protection. Moreover, if a State should attempt to reach the same result by indirect means—as by prohibiting anyone from copying a product that is known to the public, thus giving the first user an exclusive right—its effort would also interfere with, and be preempted by, the patent law. *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

But the trade secret law does not provide such rights. It does not grant exclusive rights or a monopoly. It does not protect information known to the public. On the contrary, it provides only that a person's private information will not be taken from him wrongfully:

> "It is the employment of improper means to procure the trade secret, rather than the mere copying or use, which is the basis of the liability under the rule stated in this Section." Restatement of Torts §757, comment *a* at 3-4 (1939).

* * *

> "The patent monopoly is a reward to the inventor. But such is not the case with a trade secret. Its protection is not based on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another's secret." Restatement of Torts §757, comment *b* at 7 (1939).[31]

The trade secret law grants no protection against anyone who makes the same discovery independently. It provides no protection against others fairly using the same trade secret, and competitors not infrequently each employ the same or substantially the same trade secrets without the knowledge of the other. Nor does the trade secret law prohibit a discovery from being copied or worked out by reverse engineering from what is publicly available.

Trade secret laws do not impede competition, but rather protect the fruits of it; they represent an exercise of the States' police power in order to curb certain unacceptable practices. Neither Federal law nor policy seeks to promote such practices.

A State trade secret law, therefore, grants nothing to its holder, except protection from the forays of com-

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[31] See *Board of Trade* v. *Christie Grain & Stock Co.*, *supra*, for Mr. Justice Holmes' description of contracts to maintain the confidentiality of market quotations, an obligation which he analogized to trade secrets, 198 U.S. at 250, and which the Court held not to create a monopoly:

> "But so far as these contracts limit the communication of what the plaintiff might have refrained from communicating to anyone, there is no monopoly or attempt at monopoly, and no contract in restraint of trade, either under the [Sherman Act] or at common law. . . . But it is simply a restraint on the acquisition for illegal purposes of the fruits of the plaintiff's work." 198 U.S. at 252.

mercial predators. That is not the grant of an exclusive right in an invention.[32]

b. The Courts Traditionally Have Acted to Enforce Trade Secret Laws as Entirely Separate from the Patent Law.

The courts, including this Court, have almost without exception recognized that the trade secret law is separate and distinct from the patent law and have held that public policy requires the protection of trade secrets.[33] In *Becher* v. *Contoure Laboratories, Inc., supra,* this Court emphasized that trade secret law is independent of the patent law and that a trade secret could be enforced. Justice Holmes stated for the Court:

> "[The] suit had for its cause of action the breach of a contract or wrongful disregard of confidential relations, *both matters independent of the patent law,* and . . . the subject-matter . . . was *an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust.*" *supra,* at 391 (Emphasis added).[34]

An especially articulate description of the different functions of the trade secret law and the patent law is

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[32] To characterize protection against improper disclosure of private information as granting a "monopoly" as the Sixth Circuit did, 478 F.2d at 1086, is to fall prey to the dangers of which Justice Holmes warned: "It is one of the misfortunes of the law that ideas become encysted in phrases and thereafter for a long time cease to provoke further analysis." *Hyde* v. *United States,* 225 U.S. 347, 391 (1912) (dissenting opinion).

[33] The only exception (other than the decision below) of which we are aware is the District Court's opinion in *Painton & Co.* v. *Bourns, Inc.,* 309 F.Supp. 271 (S.D.N.Y. 1970), which was reversed at 442 F. 2d 216 (2d Cir. 1971).

[34] See also, *E. I. du Pont de Nemours Powder Co.* v. *Masland, supra,* and the other decisions discussed at pp. 12-13, *supra.*

to be found in *Allen-Qualley Co.* v. *Shellmar Products Co.*, 31 F.2d 293, 296 (N.D. Ill. 1929):[35]

> "[T]he owner of a patent has a monopoly against all the world, while the owner of a secret process has no right 'except against those who have contracted, expressly or by implication, not to disclose the secret, or who have obtained it by unfair means.' . . . Whether the subject-matter is patentable or not, if the designer discovers and keeps secret a process of manufacture, though he will not have an exclusive right to it as against the public, after he shall have published it, or against those who in good faith acquire knowledge of it, yet he has a property right, which a court of chancery will protect against one who in bad faith and breach of confidence undertakes to apply it to his own use."

Four recent opinions, decided by four different Courts of Appeals, have explicitly ruled that the patent law does not preempt State trade secret laws. (In two of these four this Court was asked to grant certiorari but declined, thereby leaving in effect, in each instance, a decision contrary to the instant opinion.)[36] The thrust of these four decisions is perhaps best reflected in Judge Friendly's opinion:

> "We therefore do not find, either in general considerations of public policy or in emanations from the federal patent law, a sufficient basis for declining to enforce even the royalty provisions of

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[35] *Aff'd.*, 36 F.2d 623 (7th Cir. 1929).

[36] The four cases are: *Servo Corp. of America* v. *General Electric Co.*, 337 F.2d 716 (4th Cir. 1964), *cert. denied* 383 U.S. 934 (1966); *Dekar Industries, Inc.* v. *Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), *cert. denied* 402 U.S. 945 (1971); *Water Services, Inc.* v. *Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969); *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971).

> trade secret agreements, at least with respect to cases where no patent application has been filed. . . . [A]n inventor who chooses to exploit his invention by private arrangements is entirely free to do so, though in so doing he may thereby forfeit his right to a patent."[37]

Thus, the operation of the trade secret law does not conflict with the patent law, even with respect to inventions which could be patented—and *a fortiori* not with respect to those which, while of a "patentable" subject matter, do not qualify for a patent.

c. An Invention in Commercial Use for More Than One Year Is Not in the Public Domain.

As noted in the prior discussion concerning its scope, the Sixth Circuit's opinion applies only to trade secrets in inventions which have been in commercial use for more than one year. It is not clear what legal significance the Court attached to this "limitation." In actuality, the length of time the invention has been in use has no relevance to the question of preemption.

Under the patent law, a patent cannot be obtained on an invention which has been in "public use" for more than one year, 35 U.S.C. §102(b) (1970). "Public use" is a term of art in the patent law; it encompasses commercial use in secret by an inventor and prevents the inventor from obtaining a valid patent.[38]

Amicus curiae SCM Corporation has asserted here, as Respondents did in brief to the Sixth Circuit, that because the inventions at issue had been in commercial

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[37] *Painton & Co.* v. *Bourns, Inc.*, *supra*, at 225.

[38] *Metallizing Engineering Co.* v. *Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516 (2d Cir.), *cert. denied*, 328 U.S. 840 (1946). *Cf. Electric Storage Battery Co.* v. *Shimadzu*, 307 U.S. 5, 19-20 (1939).

use for more than a year, they somehow became, under 35 U.S.C. §102(b), "part of the public domain." Trade secret protection of such an invention, the argument runs, would grant rights like those provided by the patent law, in violation of this Court's decisions in *Sears* and *Compco*.[39]

This is totally erroneous. Commercial use of an invention, while it bars the grant of a patent to the user, does *not* necessarily place the invention in the public domain. Commercial use of a secret by no means requires that it be disclosed to the public. In fact, the Sixth Circuit itself found that twenty of the inventions at issue, which had been in commercial use for more than a year, were trade secrets, 478 F.2d at 1077—a ruling which necessarily negates any finding that they were in the public domain.[40]

If a discovery itself is revealed to the public through "public use," it necessarily passes into the public domain and cannot be a trade secret.[41] If, however, the discovery is a process or other invention which is not revealed by its "public use," like the trade secrets in the instant case, it does not enter the public domain. It requires a fanciful flight of reasoning or an imprecise use of language to conclude that by forfeiting

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[39] Brief of *Amicus Curiae* SCM Corp. in Opposition to Petition for Writ of Certiorari at 8-11; Reply Brief of Cross-Appellants at 2, *Kewanee Oil Co.* v. *Bicron Corp.*, 478 F.2d 1074 (6th Cir. 1973).

[40] "The subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret. Matters which are completely disclosed by the goods which one markets cannot be his secret." Restatement of Torts § 757, comment *b* at 5-6 (1939).

[41] Examples are the inventions in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964) (pole lamp); and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) (fluorescent lighting fixtures).

his right to a patent by a "public use" which does *not* reveal the secret, the inventor somehow places his invention in the "public domain."

The doctrine of "public use" in no way affects an inventor's right to maintain the secrecy of his discovery. As this Court explained almost one hundred fifty years ago, the bar against prior "public use" is designed to prevent an inventor from using an invention in secret and *then*, when he senses the hot breath of competition, filing for a patent, thus having the best of both worlds—a trade secret plus a patent when competition is about to destroy the value of the trade secret. *Pennock* v. *Dialogue*, 27 U.S. (2 Pet.) 1 (1829); *Shaw* v. *Cooper*, 32 U.S. (7 Pet.) 292, 321-22 (1833).[42]

If, indeed, the one-year use placed any invention in the public domain, there could be no trade secret protection of an invention after one year. Yet, as Judge Learned Hand wrote, an inventor may choose between trade secret protection and patent monopoly, and having used the invention for more than a year can rely on the former:

> "[I]t is a condition upon an inventor's right to a patent that he shall not exploit his discovery competitively after it is ready for patenting; he must content himself with either secrecy, or legal monopoly. . . . But if he goes beyond that period of probation [the one-year limit on public use], he forfeits his right regardless of how little the public may have learned about the invention; . . .[it is] the fiat of Congress that it is part of the consideration for a patent that the public shall as soon as possible begin to enjoy the disclosure." *Metallizing Engineering Co.* v. *Kenyon Bearing & Auto Parts Co., supra*, at 520.

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[42] These cases were decided prior to the enactment of a prescribed maximum period of public use.

d. The Trade Secret Law Does Not Conflict With the Patent Law's Disclosure Objectives.

The other major component of the Sixth Circuit's opinion—in addition to its assumption that a trade secret law grants a "monopoly"—was its belief that the trade secret law enables an inventor to "prevent disclosure" and that because trade secret protection "has no limitation of time . . . [it] is in direct conflict with the Patent Laws, which have as a purpose the objective of obtaining public disclosure after a limited period of time."[43]

A trade secret law, of course, does not "prevent disclosure." It merely protects private information against being revealed by improper methods, such as breach of trust. The patent law has no interest in fostering such conduct. On the contrary, as discussed below at pages 37-39 in more detail, Congress itself has provided criminal sanctions against Federal employees who wrongfully disclose trade secrets, 18 U.S.C. §1905 (1970), and has acted to preserve the confidentiality of trade secrets by enacting numerous statutes for that purpose in many different contexts.

Nor is there any policy in the patent law requiring the disclosure of unpatented innovative discoveries. The patent law requires public disclosure of a discovery only in exchange for the issuance of a patent, *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249, 255 (1945). If a person is willing to forego a patent, no law or policy requires that his discovery be made public. "He may keep his invention secret and reap its fruits indefinitely." *United States* v. *Dubilier Con-*

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[43] 478 F.2d at 1086.

denser Corp., supra, at 186. As Judge Friendly well stated:

> "Although the [Supreme] Court stated [in *Lear, Inc.* v. *Adkins,* 395 U.S. at 668] that 'federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent,' . . . it did not say or suggest that federal law requires that all ideas must be put in general circulation."[44]

That the patent law compels publication as the condition of the grant of a patent does not mean that Congress thereby sought the publication of all technological knowledge.[45] Indeed, if Congress had explicitly decreed that all inventions or innovative information must be made public, it would have exceeded the authority granted by Art. I, §8, cl. 8. That provision authorizes Congress only to grant inventors an exclusive right to their discoveries—not to decree that all technological information be made public and shared in common. The opinion below transforms the condition extracted for the grant of a monopoly into the purpose for granting the monopoly.

By holding that the Ohio trade secret law conflicts with the patent law because it does not promote the publication of unpatented information, the instant opinion thus gives the patent law an effect which would be beyond the authority of Congress if Congress had sought to reach that result directly. Congress has no power under the patent clause to compel citizens to disclose private trade information.

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[44] *Painton & Co.* v. *Bourns, Inc., supra,* at 225.

[45] On the contrary, it indicates that Congress recognized that nonpatented information could remain secret, for why else would it require the publication of secrets that are patented? See also the discussion of 35 U.S.C. § 122 (1970), *infra* at p. 38.

It is significant, finally, to note that the opinion generally considered to have been the first in the United States to recognize the validity of trade secret protection and a classic case in the area—*Peabody* v. *Norfolk, supra*—reached that result by rejecting the argument that the trade secret doctrine contravened a disclosure policy of the patent laws.[46] The Court held that the inventor can choose whether to obtain a patent or try to maintain the secrecy of the invention:

> "If he invents or discovers, and keeps secret, a process of manufacture, whether a proper subject for a patent or not, he has not indeed an exclusive right to it as against the public, or against those who in good faith acquire knowledge of it; but he has a property in it, which a court of chancery will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons."[47]

Since, as discussed above, the protection against improper disclosure afforded by the trade secret law does not conflict with the patent law, the absence of a time limitation in the trade secret law as opposed to the

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[46] 98 Mass. at 456-57. So, indeed, did the leading English case, *Morison* v. *Moat*, 9 Hare 241, 68 Eng. Rep. 492, *aff'd.*, 21 L.J. Ch. 248 (1851). In that case the Court dismissed the argument that protecting trade secrets conflicted with the English patent law:

> "It was much pressed in argument, on the part of the Defendant, that the effect of granting an injunction in such a case as the present would be to give the Plaintiffs a better right than that of a patentee . . . but what we have to deal with here is, not the right of the Plaintiffs against the world, but their right against the Defendant. It may well be that the Plaintiffs have no title against the world in general, and may yet have a good title against this Defendant . . ." 9 Hare at 258-59, 68 Eng. Rep. at 500.

[47] 98 Mass. at 458.

seventeen years provided in the patent law—an additional ground in the opinion below for holding there was a conflict[48]—is irrelevant. Nevertheless, it bears mentioning that the opinion of the Court below is also erroneous in focusing on this point.

Contrary to the statement of that Court—apparently based on a statement attributed to counsel for Petitioner, rather than on any record evidence in the instant case, let alone on any evidence about general industry practice—reliance by inventors on trade secret laws instead of the patent law is not for the purpose of preserving a "monopoly" for more than the seventeen-year patent period. As noted above, the trade secret laws do not in fact grant a monopoly for any period.

Nor would it be reasonable for inventors to expect that they will be able to maintain their secrets for as long as seventeen years. Trade secrets rarely can withstand bona fide disclosure—as by reverse engineering—for a time even approaching seventeen years. Finally, even if secrecy were maintained for that long, in very few instances would technological progress be so slow that the secret would still have any value.[49]

2. This Court's recent decisions do not support the conclusions of the Court below.

The opinion of the Sixth Circuit was premised on the stated belief that it was consistent with this Court's opinions in *Sears, Roebuck & Co.* v. *Stiffel Co., supra; Compco Corp.* v. *Day-Brite Lighting, Inc., supra;* and *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969).

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[48] 478 F.2d at 1086.

[49] G. Doerfer, *supra* n. 21, at 1448.

Yet these opinions dealt with entirely different questions.

In *Sears* and *Compco* this Court held, as noted above, that the patent system's need for uniform Federal standards with respect to patents precludes the States from granting an exclusive right to information in the public domain which would have the effect of extending a patent beyond its expiration date or granting a patent-like protection to an article on which the Federal law would deny a patent. *Sears* and *Compco* involved only the question whether a State could —by laws different from the trade secret laws—grant a monopoly as to information *which was in the public domain* (there the design of products in general circulation). As this Court said in *Lear,* citing *Sears* and *Compco,* "federal law requires that all ideas *in general circulation* be dedicated to the common good unless they are protected by a valid patent." 395 U.S. at 668 (emphasis added).

Like *Sears* and *Compco, Lear* did not involve trade secret laws. At issue there was an aspect of the administration of the patent law, and the Court held that State contract law could not be enforced to require a licensee to pay royalties for the use of an invention covered by a patent while he was contesting the validity of the patent. It is worth noting that Justice Black (the author of *Sears* and *Compco*), in his concurring opinion in *Lear* (joined by Chief Justice Warren and Justice Douglas), indicated that the patent law does not preclude a State from assisting an inventor in keeping his discovery secret, 395 U.S. at 677.

Sears, Compco, and *Lear* thus are consistent with the earlier decisions of this Court upholding the protection of trade secrets.[50]

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[50] See discussion at pp. 12-13, *supra.*

This Court's most recent opinion bearing on the subject is *Goldstein* v. *California, supra.* That decision upheld a California statute which in effect granted a State copyright on recordings, even though the Federal copyright law then in effect could have, but did not, provide such protection. This Court recognized that the California statute did not create any conflict with the operation of the Federal copyright law because Congress had "left the area unattended." [51]

That a State trade secret law is not preempted follows *a fortiori* from this decision. Because the trade secret law provides an entirely different protection from that offered by the Federal law, the area is not only "unattended" by Congress, but totally outside its ken under the patent law.[52]

C. Congress Has Affirmatively Indicated That The Trade Secret Law Is Not Preempted By Federal Law.

Since trade secret laws do not in any way impede the operation of the patent law, it is not surprising that Congress has not indicated in any way that the patent law should preempt the trade secret laws of the States. On the contrary, Congress has affirmatively

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[51] 412 U.S. at 570.

[52] This Court reached its decision in *Goldstein* by distinguishing that case from *Sears* and *Compco* on the ground that Congress had drawn a balance in the area of "mechanical configurations" as to which articles it sought to protect under the patent law and which it wished to remain free, and that the States could not protect those articles which Congress had specifically declined to protect, 412 U.S. at 569-70. This distinction, of course, merely refers to the fact that *Sears* and *Compco,* as discussed above, held that States could not prevent the copying of articles in the public domain. Those cases did not hold that Congress had determined that unpatented information must be made public. Nor did they bear on the non-monopoly protection afforded by the trade secret law. Thus, *Goldstein* is authority that States can provide trade secret protection—an area Congress has left far more "unattended" than it has the copyright field.

demonstrated in numerous statutes that it supports the policies of the trade secret laws and desires them to be fully effective. These statutes are set forth in Appendix D to this Brief.[53]

Perhaps most probative of Congressional intent is the fact that even in the patent law itself Congress has recognized the validity of trade secrets and has acted to protect them. Section 122 of the patent law, 35 U.S.C. §122 (1970), provides specifically that applications for patents shall be maintained in secrecy (which secrecy may be breached only in unusual circumstances); see also, Patent Office Rule 14, 37 C.F.R. §1.14 (1973). This provision applies even if the application ultimately is denied or abandoned, *Sears* v. *Gottschalk*, 357 F.Supp. 1327 (E.D. Va. 1973); 37 C.F.R. §1.14(b) (1973); and P. J. Federico, "Commentary on the New Patent Act," 35 U.S.C.A. 1, 35-36 (1954). In other words, Section 122 recognizes the patent applicant's option to retain his invention as a trade secret if no patent is obtained, even if a patent would have been obtained if the inventor had not abandoned his application.

In addition, Congress has provided criminal sanctions against Federal employees who wrongfully disclose trade secrets. In 18 U.S.C. §1905 (1970), Congress has prescribed that any employee who "discloses

[53] In their reply brief to the Court below, Respondents, citing no examples, attempted to minimize the importance of such statutes by asserting that "most" of them "deal with inspection and registration of new products before they are placed in the stream of commerce." Reply Brief of Cross-Appellants at 5-6, *Kewanee Oil Co.* v. *Bicron Corp.*, 478 F.2d 1074 (1973). The assertion is groundless: these statutes require the protection of all trade secrets, and none of them is limited, implicitly or explicitly, to new products that have not entered the stream of commerce.

. . . information [which] concerns or relates to . . . trade secrets . . . shall be fined . . . or imprisoned . . ."

Finally, it should be noted that Congress is currently considering several bills which would implement major reforms in the patent law.[54] One of these, S. 2504, has recently been proposed formally by the Administration. It is supported by the Antitrust Division of the Department of Justice.[55] It would add a Section 301 making it explicit that the patent law does not preempt state trade secret laws:

> "(a) This title shall not be construed to preempt rights or obligations arising by operation of state law concerning trade secrets.
>
> "(b) Nothing in subsection (a) shall authorize any state to grant any person the right to limit the full and free use by the public of ideas in the public domain or in general circulation."

In his "Message to the Congress Proposing Enactment of the Patent Modernization and Reform Act of 1973," 9 Presidential Doc. 1198, 1201 (Oct. 1, 1973), the President explained the proposed Section 301 as follows:

> "[This] provision would ensure that the patent laws not be construed to replace or preempt state laws concerning trade secrets so long as those state laws do not interfere with the free flow of ideas in

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[54] 93rd Cong., 1st Sess.: H.R. 7111 (introduced by Rep. Owens and Rep. Mezvinsky on April 17, 1973), S. 1321 (introduced by Sen. Hart on March 22, 1973), and S. 2504 (introduced by Sen. Scott of Pa. for the Administration on October 1, 1973).

[55] See Remarks of Thomas E. Kauper, Assistant Attorney General, Antitrust Division, before the Seventh Annual New England Antitrust Conference, reported in 152 BNA Patent, Trademark & Copyright Journal A-8 (November 8, 1973).

> the public domain. Decisions of the Supreme Court in both of these areas would also be left undisturbed."

In view of this Court's invitation to the Solicitor General to file a brief *amicus curiae* herein, it should be noted that the Department of Justice apparently supports Section 301. The Administration's proposed bill, in which that section is included, was transmitted to Congress by the Departments of Justice and Commerce.[56]

In addition, the Department of Justice earlier stated that it would support a narrowly drawn non-preemption provision like Section 301. In 1971, the Senate Committee on the Judiciary was considering an anti-preemption provision which not only antedated the decision below, but which was also far broader than the present Section 301. Richard McClaren, the Assistant Attorney General for the Antitrust Division of the Department of Justice, submitted the Department's position as follows:

> "We would not object . . . to a more narrowly drafted provision permitting the states to protect inventors' rights in their ideas, provided that those ideas are both really secret and really valuable.
> "I believe that the accommodation which I have suggested is consistent with both the patent system and the antitrust laws. In addition, it recognizes the existence of a longstanding body of common law which protects private rights to trade secrets and industrial know-how. It protects the choice

[56] Thomas E. Kauper, Assistant Attorney General, Antitrust Division, represented the Department of Justice at the White House press conference on the Patent Modernization and Reform Act of 1973, 9 Pres. Doc. 1209 (Oct. 1, 1973); 119 Cong. Rec. § 18140 (daily ed. Oct. 1, 1973) (remarks by Sen. Scott of Pa.).

long available to inventors of disclosing their invention and securing a patent on it, or of keeping their inventions secret and exploiting them through trade secret and know-how licenses."[57]

Section 301 confirms that the Administration does not wish the trade secret laws to be preempted. Moreover, Section 301 demonstrates that the Administration believes, as *amicus curiae* MCA contends here, that the patent law does not preempt State trade secret laws, and that this result promotes the public interest.[58]

CONCLUSION

The decision of the Court below does not promote the public interest. It would prevent the enforcement of State laws which protect trade secrets from being misappropriated by conduct which has heretofore been considered improper—breach of contract, breach of trust, and abuse of confidential relationships.

In doing so, it would destroy a legal and economic structure which has been in operation in this Nation from its founding and upon which industry has long relied; it would promote predatory business behavior

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[57] Richard McClaren, then Assistant Attorney General, Antitrust Division, Patent Law Revision Hearings on S. 643, S. 1253, and S. 1255, Before the Subcommittee on Patents, Trademarks, and Copyrights of the Senate Committee on the Judiciary, 92nd Cong., 1st Sess., pt. 2, 503, at 516 (1971).

[58] Prior to the Sixth Circuit's decision in this case, the Department of Justice publicly stated that no anti-preemption provision was required in order to preserve the State trade secret laws:

> "Nothing the courts have done in the area of preemption warrants legislative action at this time. The appropriate time for legislation, if any, is after such event, not before."

"Memorandum of Law by Department of Justice," Patent Law Revision Hearings, *supra* n. 57, 483, at 502.

and impair the growth of the American economy. There is no Federal policy which requires such a result, and the doctrine of preemption does not warrant such a result.

Trade secret law in no way impedes the operation of the patent law or conflicts with it; the two systems of law provide entirely different kinds of protection. Congress has affirmatively manifested its intention, not only that trade secret laws be permitted to continue but also that the Federal Government recognize and respect them.

The opinion and order of the Sixth Circuit should be reversed by this Court.

Respectfully submitted,

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November 23, 1973

APPENDIX

CIBA-GEIGY Corporation
Cities Service Company
Climax Molybdenum Company
Commercial Solvents Corporation
Commonwealth Oil Refining Company, Inc.
Continental Oil Company
Cordova Chemical Division, Aerojet-General Corporation
Cosden Oil & Chemical Company
CPC International Inc.
Crompton & Knowles Corporation, Chemicals Group
Cyanamid of Canada Limited
Dart Industries Inc., Chemical Group
Detroit Chemical Works
Diamond Shamrock Corporation
Dixie Chemical Company, Inc.
Domtar Chemicals Limited
The Dow Chemical Company
Dow Chemical of Canada, Limited
Dow Corning Corporation
E. I. du Pont de Nemours & Company
Du Pont of Canada Limited
Eastman Kodak Company
Engelhard Industries, Division of Engelhard Minerals & Chemicals Corporation
ERCO Industries Limited
Essex Chemical Corporation
Ethyl Corporation
Exxon Chemical Company
Ferro Corporation
Fike Chemicals, Inc.
Firestone Plastics Company, Division of The Firestone Tire & Rubber Company
First Chemical Corporation
Fisher Scientific Company, Chemical Manufacturing Division
FMC Corporation, Chemical Group
Foote Mineral Company
Foster Grant Co., Inc.

Freeport Minerals Company
GAF Corporation
General Electric Company, Chemical and Metallurgical Division
General Mills Chemicals, Inc.
The General Tire & Rubber Company, Chemical Division
Geneva Industries, Inc.
Georgia-Pacific Corporation, Chemical Division
Glyco Chemicals, Inc.
B. F. Goodrich Chemical Company, A Division of The B. F. Goodrich Company
The Goodyear Tire & Rubber Company
Gordon Chemical Co., Inc.
W. R. Grace & Co.
Great Lakes Carbon Corporation
Great Lakes Chemical Corporation
Gulf Oil Canada Limited
Gulf Oil Chemicals Company
The Harshaw Chemical Company, Division of Kewanee Oil Company
Henkel Inc.
Hercules Incorporated
Hoffmann-La Roche Inc.
Hooker Chemical Corporation
ICI America Inc.
Inmont Corporation
International Minerals & Chemical Corporation
ITT Rayonier Incorporated
Jefferson Chemical Company, Inc.
Kaiser Chemicals, Division of Kaiser Aluminum & Chemical Corporation
Kawecki Berylco Industries, Inc.
Kay-Fries Chemicals, Inc.
Kerr-McGee Chemical Corp.
H. Kohnstamm & Co., Inc.
Koppers Company, Inc.
Eli Lilly and Company
The Lubrizol Corporation

Mallinckrodt Chemical Works
M&T Chemicals Inc., Subsidiary of American Can Company
Marbon Division, Borg-Warner Corporation
MC&B Manufacturing Chemists
Melamine Plastics Corporation
Merck & Co., Inc.
Merichem Company
Michigan Chemical Corporation
Miles Laboratories, Inc.
Milliken Chemical Division, Magnolia Industries, Inc.
Minnesota Mining and Manufacturing Company, Chemical Division
Mobil Chemical Company, A Division of Mobil Oil Corporation
Monsanto Company
Morton Chemical Company, A Division of Morton-Norwich Products, Inc.
Nalco Chemical Company
National Starch and Chemical Corporation
Neville Chemical Company
N L Industries, Inc.
Northern Petrochemical Company
Norton Chemical Process Products, Division of Norton Company
Olin Corporation
Owens-Corning Fiberglas Corporation, Chemical Division
Oxirane Chemical Company
The Pantasote Company of New York, Inc.
C. H. Patrick & Co., Inc.
Pearsall Chemical Corporation
S. B. Penick & Company
Pennwalt Corporation
Pfister Chemical Inc.
Pfizer Inc.
Phelps Dodge Refining Corporation
Philadelphia Quartz Company
Phillips Petroleum Company
Pilot Chemical Company

PPG Industries, Inc., Chemical Division
The Procter & Gamble Company
Productol Chemical Company
Publicker Industries Inc.
The Quaker Oats Company, Chemicals Division
Reichhold Chemicals, Inc.
Reilly Tar & Chemical Corporation
Reynolds Metals Company
The Richardson Chemical Company
Rohm and Haas Company
Royce Chemical Company
Royster Company
Rubicon Chemicals Inc.
Shell Chemical Company, A Division of Shell Oil Company
The Shepherd Chemical Company
Sinclair-Koppers Company
Sobin Chemicals, Inc.
Standard Chlorine Chemical Co., Inc.
Stauffer Chemical Company
Stepan Chemical Company
Story Chemical Corporation
Sun Oil Company
SunOlin Chemical Company
Tenneco Chemicals, Inc.
Texaco Inc., Petrochemical Department
Texasgulf Inc.
Union Carbide Canada Limited
Union Carbide Corporation
Union Oil Company of California
  AMSCO Division
  Collier Carbon and Chemical Corporation Subsidiary
UNIROYAL, Inc.
United States Borax & Chemical Corporation
U.S. Industrial Chemicals Co., Division of National
  Distillers and Chemical Corporation
Universal Oil Products Company
The Upjohn Company
USS Chemicals Division of United States Steel Corporation

R. T. Vanderbilt Company, Inc.
Velsicol Chemical Corporation
Ventron Corporation
Virginia Chemicals Inc.
Vistron Corporation, Subsidiary of The Standard Oil Company (Ohio)
Vulcan Materials Company
Warner-Lambert Chemicals Division, Warner-Lambert Company
Witco Chemical Corporation

APPENDIX B

States In Which Courts Have Recognized Trade Secret Protection

Arizona

San Manuel Copper Corp. v. *Redmond*, 8 Ariz. App. 214, 445 P.2d 162 (Ct. App. 1968)

Arkansas

Witmer v. *Arkansas Dailies, Inc.*, 202 Ark. 470, 151 S.W. 2d 971 (1941)

California

Empire Steam Laundry v. *Lozier*, 165 Cal. 95, 130 P. 1180 (1913)

Colorado

Julius Hyman & Co. v. *Velsicol Corp.*, 123 Colo. 563, 233 P.2d 977 (1951)

Connecticut

Plastic & Metal Fabricators, Inc. v. *Roy*, 163 Conn. 257, 303 A.2d 725 (1972)

Delaware

Delaware Chemicals, Inc. v. *Reichhold Chemicals, Inc.*, 35 Del. Ch. 493, 121 A.2d 913 (1956)

Florida

Bert Lane Co. v. *International Industries, Inc.*, 84 So.2d 5 (Fla. 1955)

Georgia

Stewart v. *Hook*, 118 Ga. 445, 45 S.E. 369 (1903)

Illinois

Schulenburg v. *Signatrol, Inc.*, 33 Ill. 2d. 379, 212 N.E.2d 865 (1965)

Indiana

Westervelt v. *National Paper & Supply Co.*, 154 Ind. 673, 57 N.E. 552 (1900)

Iowa

Bandag, Inc. v. *Morenings*, 259 Iowa 998, 146 N.W.2d 916 (1966)

Kansas
Morrison v. *Woodbury,* 105 Kan. 617, 185 P. 735 (1919)
Kentucky
Progress Laundry Co. v. *Hamilton,* 208 Ky. 348, 270 S.W. 834 (1925)
Louisiana
Marcann Outdoor, Inc. v. *Johnston,* 229 So.2d 419 (La. App. 1969)
Maryland
Space Aero Products Co. v. *R. E. Darling Co.,* 238 Md. 93, 208 A.2d 74 (1965)
Massachusetts
Peabody v. *Norfolk,* 98 Mass. 452 (1868)
Michigan
O. & W. Thum Co. v. *Tloczynski,* 114 Mich. 149, 72 N.W. 140 (1897)
Minnesota
Elaterite Paint & Manufacturing Co. v. *S. E. Frost Co.,* 105 Minn. 230, 117 N.W. 388 (1908)
Missouri
Luckett v. *Orange Julep Co.,* 271 Mo. 289, 196 S.W. 740 (1917)
Montana
Best Dairy Farms, Inc. v. *Houchen,* 152 Mont. 194, 448 P.2d 158 (1968)
Nebraska
Securities Acceptance Corp. v. *Brown,* 171 Neb. 701, 107 N.W.2d 540 (1961)
New Jersey
Salomon v. *Hertz,* 40 N.J.Eq. 400, 2 A. 379 (Ch. 1886)
New York
Tabor v. *Hoffman,* 118 N.Y. 30, 23 N.E. 12 (1889)
Ohio
B. F. Goodrich Co. v. *Wohlgemuth,* 117 Ohio App. 493, 192 N.E.2d 99 (1963)

Oklahoma
Brenner v. *Stavinsky*, 184 Okla. 509, 88 P.2d 613 (1939)

Oregon
Port Investment Co. v. *Oregon Mut. Fire Ins. Co.*, 163 Or. 1, 94 P.2d 734 (1939)

Pennsylvania
Fralich v. *Despar*, 165 Pa. 24, 30 A. 521 (1894)

Rhode Island
Stevens & Co. v. *Stiles*, 29 R.I. 399, 71 A. 802 (1909)

South Carolina
Lowndes Products, Inc. v. *Brower*, 259 S.C. 322, 191 S.E.2d 761 (1972)

South Dakota
Jewel Tea Co. v. *Grissom*, 66 S.D. 146, 279 N.W. 544 (1938)

Tennessee
Hall v. *Britton*, 41 Tenn. App. 72, 292 S.W.2d 524 (Ct. App. 1953)

Texas
Luccous v. *J. C. Kinley Co.*, 376 S.W.2d 336 (Tex. 1964)

Vermont
McClary v. *Hubbard*, 97 Vt. 222, 122 A. 469 (1923)

Washington
John Davis & Co. v. *Miller*, 104 Wash. 444, 177 P. 323 (1918)

Wisconsin
Abbott Laboratories v. *Norse Chemical Corp.*, 33 Wisc. 2d 445, 147 N.W.2d 529 (1967)

Wyoming
Ridley v. *Krout*, 63 Wyo. 252, 180 P.2d 124 (1947)

See generally Milgrim, Trade Secrets § 2.01 (1967 and Supp. 1973), for additional decisions, including cases from every Circuit Court of Appeals.

APPENDIX C

State Statutes Prohibiting Disclosure of Trade Secrets

Arkansas
Ark. Stat. Ann. §§ 41-3949 to -3151 (Supp. 1971)

California
Cal. Penal Code Ann. § 499c (West 1970)

Colorado
Colo. Rev. Stat. 1963 § 40-5-33 (Supp. 1969) and § 40-5-34 (Supp. 1967)

Georgia
Ga. Code. Ann. § 26-1809 (1972)

Illinois
Ill. Ann. Stat. Ch. 38 §§ 15-1 to -9, 16-1 (1970)

Indiana
Ind. Stat. Ann. §§ 10-3048 to -3052 (Burns Supp. 1972)

Maine
Me. Rev. Stat. Ann. tit. 17, § 2113 (West Supp. 1973)

Massachusetts
Mass. Gen. Laws Ann. ch. 93, §§ 42, 42A (West Supp. 1972)
Mass. Gen. Laws Ann. ch. 266, §§ 30(4), 60A (West 1970)

Michigan
Mich. Compl. Laws §§ 752.771-.773 (1970)

Minnesota
Minn. Stat. Ann. § 609.52 (West Supp. 1973)

Nebraska
Nebr. Rev. Stat. ch. 28, § 548.01-.03 (Supp. 1972)

New Hampshire
N. H. Rev. Stat. Ann. ch. 580, § 32 (Supp. 1972)

New Jersey
N. J. Stat. Ann. § 2A:119-5.1 to -5.5 (1969)

New Mexico
N. M. Stat. Ann. § 40A-16-23 (1972)

New York
N.Y. Penal Law §§ 155.00(6), 155.30(3), 165.07 (McKinney 1967)

North Carolina
N. C. Gen. Stat. § 14-75.1 (1969)
Ohio
Ohio Rev. Code Ann. tit. 13, §§ 1333.51, 1333.99(E) (Supp. 1972)
Oklahoma
Okla. Stat. Ann. tit. 21, § 1732 (West Supp. 1972)
Pennsylvania
Pa. Stat. Ann. tit. 18 § 3930 (1973)
Tennessee
Tenn. Code Ann. §§ 39-4238 to -4240 (Supp. 1971)
Wisconsin
Wisc. Stat. § 943.205 (1971)
See also ABA 1971 Committee Reports, Section of Patent, Trademark, and Copyright Law, 224-28 (1971), for State statutes prohibiting the disclosure of trade secrets by agencies of State governments.

APPENDIX D

United States Statutes Requiring Confidential Treatment Of Trade Secrets

5 U.S.C. § 552(b)(4) (1970) (exempting trade secrets from disclosure under the Freedom of Information Act).

15 U.S.C. § 46(f) (1970) (excepting trade secrets from information that FTC is authorized to make public).

15 U.S.C. §§ 78x(a), 79v(a) (1970) (Securities Exchange Act of 1934, and Public Utility Holding Company Act of 1935, providing that SEC not authorized to require disclosure of trade secrets).

15 U.S.C. § 330b(c) (Supp. II 1972) (prohibiting disclosure of confidential information obtained by Secretary of Commerce in relation to weather modification activities).

15 U.S.C. § 1193(c) (1970) (trade secrets concerning flammable fabrics shall be considered confidential by Consumer Product Safety Commission).

15 U.S.C. § 1263(h) (1970) (prohibiting use or disclosure of trade secrets obtained under the Federal Hazardous Substances Act).

15 U.S.C. § 1401(e) (1970) (trade secrets obtained pursuant to the National Traffic and Motor Vehicle Safety Act of 1966 to be treated confidentially); 15 U.S.C. § 1402(d) (1970) (National Traffic and Motor Vehicle Safety Act of 1966, prohibiting disclosure by Secretary of Transportation of trade secrets communicated to dealers by manufacturers concerning defects, unless required in order to carry out purposes of the Act).

15 U.S.C. §§ 1914(b), 1944(f) (Supp. II 1972) (Motor Vehicle Information and Cost Savings Act of 1972, trade secrets to be confidential).

15 U.S.C. § 2055(a)(2) (Supp. II 1972) (Consumer Product Safety Act, trade secrets to be confidential).

18 U.S.C. § 1905 (1970) (Federal crime for employee of United States to disclose trade secret).

21 U.S.C. § 331(j) (1970) (prohibiting any person from misusing or disclosing trade secrets obtained pursuant to Federal Food, Drug and Cosmetic Act).

21 U.S.C. § 458(a)(5) (1970) (prohibiting any person from misusing or disclosing trade secrets acquired pursuant to Poultry Products Inspection Act).

29 U.S.C. § 664 (1970) (Occupational Safety and Health Act of 1970, requiring confidential treatment of trade secrets).

33 U.S.C. §§ 1318(b), 1320(d), 1322(g)(3), 1369(a)(1) (Supp. II 1972) (Federal Water Pollution Control Act Amendments of 1972, requiring confidential treatment of trade secrets).

39 U.S.C. § 410(c)(2) (1970) (specifically exempting trade secrets from applicability of the Freedom of Information Act to Postal Service).

42 U.S.C. § 263g(d) (1970) (Radiation Control for Health and Safety Act of 1968, limiting disclosure of defects if trade secrets involved); 42 U.S.C. § 263i(e) (1970) (Radiation Control for Health and Safety Act of 1968, prohibiting disclosure of trade secrets disclosed by inspections or records).

42 U.S.C. §§ 1857c-9(c), 1857d(j)(1), 1857f-6(b) (1970) (Clean Air Act, barring disclosure of trade secrets revealed to EPA; 42 U.S.C. § 1857h-5(a)(1) (Supp. II 1972) (Clean Air Act, trade secrets to be confidential).

42 U.S.C. § 4912(b)(1) (Supp. II 1972) (Noise Control Act of 1972, trade secrets to be confidential).

46 U.S.C. § 1463(b) (Supp. II 1972) (Federal Boat Safety Act of 1971, trade secrets to be confidential).

Economic Stabilization Act of 1970, Pub.L. No. 91-379, § 205 (August 15, 1970), as amended, 12 U.S.C. § 1904 note (Supp. II 1972) (trade secret information submitted to CLC to be confidential).

See also, Act of July 3, 1964, Pub.L. No. 88-354, § 5(e), 78 Stat. 269 (creating National Commission on Food Marketing and prohibiting disclosure of trade secrets); and Act of May 29, 1968, Pub.L. No. 90-321, § 405(e), 82 Stat. 146 (creating National Commission on Consumer Finance and prohibiting disclosure of trade secrets).

See generally, Milgrim *Trade Secrets* § 6.02 (1973).

FILED
DEC 20

In The

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY,
Petitioner,

v.

BICRON CORPORATION, et al.,
Respondents.

BRIEF OF THE OHIO STATE BAR ASSOCIATION AS AMICUS CURIAE IN SUPPORT OF PETITIONER

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In The

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY,

Petitioner,

v.

BICRON CORPORATION, et al.,

Respondents.

BRIEF OF THE OHIO STATE BAR ASSOCIATION AS AMICUS CURIAE IN SUPPORT OF PETITIONER

AUTHORITY TO FILE

This brief is filed on behalf of the Ohio State Bar Association as *amicus curiae* pursuant to Rule 42 (2) of this Court and is accompanied by the written consent of both parties to file this brief at this time, the originals of which are filed herewith.

INTEREST OF AMICUS CURIAE

The Ohio State Bar Association is a nonprofit association comprising attorneys admitted to practice in Ohio. The decision before this Court effectively erases Ohio's trade secret law — law that is grounded in an historic common law right and that has been recognized and protected

by Ohio's courts for almost a century. Moreover, the decision below threatens to upset numerous existing relationships, to establish a judicial precedent threatening other important common law rights protected in Ohio, and to promote immoral and unethical dealings in this state. The Association has authorized the filing of this brief in the belief that this Court should have available for its consideration the applicable Ohio decisions before it decides whether the United States Patent Laws preempt a right which the State of Ohio has long recognized and protected.

The Association adopts and supports the legal arguments advanced here by Petitioner and strongly urges reversal of the Court below and reinstatement of the District Court's decision. The Association takes no position with respect to the *private* rights of the parties to this case. The Association's concern is solely with the holding of federal preemption of Ohio law protecting the trade secrets of its citizens.

STATEMENT OF THE CASE

The Ohio State Bar Association hereby adopts and relies upon the STATEMENT as set forth in Petitioner's brief, supplemented in the following respects. Of special interest to this Amicus are the holdings of the Sixth Circuit Court of Appeals that: (1) a detailed review of Ohio law is not necessary to a decision of the issues presented; (2) Ohio trade secret law gives to its owner a monopoly exercisable against any person by which he can exclude competition and prevent disclosure; and (3) Ohio trade secret law has no limit in time and provides protection greater than that provided by the federal patent laws. This Amicus believes that the Sixth Circuit misapprehended the nature of and rights afforded by Ohio trade secret law and sub-

mits that when properly viewed there are no valid reasons for refusing, under the guise of federal preemption, to enforce a trade secret cause of action.

SUMMARY OF ARGUMENT

It is readily apparent from the decision below that the Sixth Circuit's holding was strongly influenced by its belief that Ohio trade secret law affords to the holder of a trade secret the right to exclude all others from practicing that trade secret for an indefinite period of time. This is apparent from the Court's reliance on *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964); and *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), cases totally inapplicable to this case, and from its statement:

> "Thus, we feel compelled to conclude that *a state trade secret law which protects an inventor in the maintenance of a monopoly* of a device which is an appropriate subject for patent under the United States Patent Laws is in conflict with the policies and purposes of those patent laws where the invention has been used commercially for more than one year. By such use the inventor has forfeited his right to a patent but *by the use of the state trade secret law he is able to exclude competition and prevent disclosure,* thus obtaining protection which he could not obtain under the laws of the United States. *The state trade secret law has no limitation of time* and, therefore, is in direct conflict with the Patent Laws, which have as a purpose the objective of obtaining public disclosure after a limited period of time." 478 F.2d at 1086. (Emphasis added).

In essence, the Court concluded that Ohio trade secret law provides its holder with a property right "in gross".

This conclusion and the results flowing therefrom are not supported by Ohio law. More specifically, a review of the trade secret law of Ohio demonstrates that: (1) a trade secret owner in Ohio has no property rights in the trade secret itself, rather the right recognized is the right to prevent others from using or disclosing a trade secret obtained by improper means or in violation of a confidential relationship; and (2) the rights protected are limited in time and only so long as the secret is not a matter of general knowledge in the industry. That the decisional and statutory law in Ohio dictates these conclusions will now be demonstrated.

ARGUMENT

I. INTRODUCTION:

THE BASIS AND NATURE OF OHIO TRADE SECRET LAW

A. A TRADE SECRET OWNER IN OHIO HAS THE RIGHT TO PREVENT A PERSON FROM USING THE TRADE SECRET ONLY WHERE IT WAS OBTAINED BY UNFAIR OR IMPROPER MEANS OR WHERE THE USE IS IN VIOLATION OF A CONFIDENTIAL RELATIONSHIP.

For almost one hundred years the courts of Ohio have recognized that a trade secret owner has the right to prevent one who takes his trade secret by improper or unfair means or by breaching a confidential relationship from using or divulging the secret. Most frequently, the trade secret owner has sought to prevent the use of the trade secret by a person who has received knowledge of it through a confidential relationship, as for example, during em-

ployment and then uses it in violation of such relationship. In the absence of any breach of confidential relationship, or obtainment by improper or unfair means, a trade secret owner has *no* right to prevent a third party from using his trade secret. In essence, the right protected is a right which derives from an obligation of fairness and not from a right in gross arising from the trade secret. The cornerstone of the cause of action is that a person's private information will not be taken from him wrongfully.

This was first expressed in Ohio by Judge Taft in *Cincinnati Bell Foundry Co.* v. *Dodds,* 19 Weekly L. Bull. 84, 10 Ohio Dec. Reprint 154 (Super. Ct. 1887), the earliest reported decision in Ohio.[1]

> "[H]e who discovers and keeps secret a process of manufacture, whether a proper subject for a patent or not, has a property in it which a court of equity will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons. He has not an exclusive right to it as against the public or against

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[1] Although this brief is restricted to a review of Ohio trade secret law, it is well to note that the right of a manufacturer, whose goods are made by an unpatented secret process, to protection by injunction against the use and divulging of his secret in a proper case, is established by a well-considered line of cases in England and in the United States. The leading case is *Morrison* v. *Moat,* 61 Eng. Rep. 492 (Ch. 1851), decided by Vice Chancellor Turner in 1851, and affirmed in Court of Appeals by Lord Cranworth, 21 L.J., Ch. 248. Other English cases are *Merryweather* v. *Moore,* [1892] L.R. 4 Ch. 518; *Lamb* v. *Evans,* [1892] L.R. 3 Ch. 462. The leading case in the United States is *Peabody* v. *Norfolk,* 98 Mass. 452 (1868). Other early cases are *Tabor* v. *Hoffman,* 118 N.Y. 30, 23 N.E. 12 (1889), *O & W Thum Co.* v. *Tloczynski,* 114 Mich. 149, 72 N.W. 140 (1897); *Westervelt* v. *National Paper & Supply Co.,* 153 Ind. 673, 57 N.E. 552 (1900); *Salomon* v. *Hertz,* 40 N.J. Eq. 400, 2 A. 379 (1886); *C. T. Simmons Medicine Co.* v. *Simmons,* 81 F. 163 (C.C. Ark. 1897). Ohio's law of trade secrets finds its beginnings in *Peabody* v. *Norfolk, supra. Cincinnati Bell Foundry Co.* v. *Dodds,* 19 Weekly L. Bull. 84, 10 Ohio Dec. Reprint 154 (Super. Ct. 1887).

> those who, in good faith, acquire knowledge of it. . . . [I]t is settled that such a secret is a legal subject of property and that a bond to convey it may be legally enforced, thus fully recognizing that the inventor of a secret process may sell or assign it to another. It is indispensable to value in such a process, that the owner shall have the right to protect himself against persons who wish to use or disclose it in violation of contract or confidence." 19 Weekly L. Bull. at 84-85, 10 Ohio Dec. Reprint at 154-55. (Citations omitted)

Accordingly, there was established in Ohio three fundamental requirements for the protection of trade secrets: (1) the trade secret, whether patentable or not, must constitute proper matter for protection; (2) the person against whom relief is sought must have either violated or threatened to violate a contract or confidence not to disclose or use the secret; and (3) the matters for which protection is sought must be shown to be a secret. These three fundamental requirements of a cause of action have been maintained in Ohio for over 85 years.[2]

These requirements were repeated 15 years later and, in addition, Ohio law first recognized that trade secret protection is not commensurate with the protection afforded by a patent.

> "The necessity of good faith and honest, fair dealing, is the very life and spirit of the commercial world. It is absolutely necessary that it should be protected and enforced by courts . . . .
>
> [I]f these patterns are trade secrets, then it cannot be permitted that the defendant company here should have the benefit of the same, . . . when the patterns were procured in the reprehensible manner charged and admitted . . . .

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[2] They are also codified in Section 1333.51 of the Ohio Revised Code (1967), which is reproduced in Appendix A.

> [A trade secret] is not protected by patent, for the secret then is made public, and the inventor is protected by letters patent from infringement thereof; while, as soon as anyone fairly and honestly discovers a trade secret, either by examination of the manufactured products sold or offered for sale to the public, or in any other honest way, that person discovering it has full right to use the same. That is the risk the owner takes, and if he would have further protection, he must seek it in a patent." *National Tube Co.* v. *Eastern Tube Co.*, 3 Ohio C.C.R. (n.s.) 459, 462 (Ct. App. 1902), *aff'd*, 69 Ohio St. 560, 70 N.E. 1127 (1903).

Cincinnati Bell Foundry Co. v. *Dodds, supra,* was followed in 1904 in *Recording & Computing Machines Co.* v. *Neth,* 7 Ohio N.P. (n.s.) 217 (C.P. 1904), to enjoin an employee from selling his employer's trade secrets; and *Seifried* v. *Maycox,* 14 Ohio Dec. 536 (Super. Ct. 1904), to enjoin a former employee who had taken plaintiff's trade secrets with him from disclosing or using the trade secrets for his own benefit; and in 1906 in *Holland Stock Remedy Co.* v. *Independent Chem. Co.,* 17 Ohio Dec. 207 (C.P. 1906), to prevent the use and threatened publication of wrongfully obtained trade secrets. By 1910 the law of trade secrets in Ohio had become fully established. *National Cash Register Co.* v. *Heyne,* 10 Ohio N.P. (n.s.) 465 (C.P. 1910).

Since 1910, the requirements first laid down by Judge Taft have been uniformly applied in the Ohio courts. *Monitor Stove Co.* v. *Williamson Heater Co.,* 18 Ohio App. 352 (1923); *Sandusky Foundry & Mach. Co.* v. *Wood,* 1 Ohio L. Abs. 409 (Ct. App. 1923); *French Bros. Bauer Co.* v. *Townsend Bros. Milk Co.,* 21 Ohio App. 177, 152 N.E. 675 (1925); *American Mortgage Co.* v. *Rosenbaum,* 114 Ohio St. 231, 151 N.E. 122 (1926); *Case* v. *Thomas,* 5 Ohio L. Abs. 308 (Ct. App. 1927); *White Baking Co.* v. *Snell,*

28 Ohio N.P. (n.s.) 172 (C.P. 1930); *Curry* v. *Marquart*, 133 Ohio St. 77, 11 N.E.2d 868 (1937); *Briggs* v. *Butler*, 140 Ohio St. 499, 45 N.E.2d 757 (1942); *Soeder* v. *Soeder*, 82 Ohio App. 71, 77 N.E.2d 474 (1947); *Patterson* v. *Pollack*, 84 Ohio App. 489, 84 N.E.2d 606 (1948); *Perfect Measuring Tape Co.* v. *Notheis*, 93 Ohio App. 507, 114 N.E.2d 149 (1953); *Hance* v. *Peacock*, 84 Ohio L. Abs 535, 169 N.E.2d 564 (C.P. 1960); *B. F. Goodrich Co.* v. *Wohlgemuth*, 117 Ohio App. 493, 192 N.E.2d 99 (1963); *Fremont Oil Co.* v. *Marathon Oil Co.*, 92 Ohio L. Abs. 76, 192 N.E.2d 123 (C.P. 1963); *Albert B. Cord Co.* v. *S. & P. Management Serv., Inc.*, 2 Ohio App. 2d 148, 207 N.E.2d 247 (1965); *H. J. Sherwood, Inc.* v. *Fibeco, Inc.*, 13 Ohio Misc. 269, 234 N.E.2d 531 (C.P. 1967); and in the Sixth Circuit. *A. O. Smith Corp.* v. *Petroleum Iron Works Co.*, 73 F.2d 531 (6th Cir. 1934), *modified to increase scope of injunction*, 74 F.2d 934 (6th Cir. 1935); *John T. Lloyd Laboratories, Inc.* v. *Lloyd Bros. Pharm., Inc.*, 131 F.2d 703 (6th Cir. 1942); *W. R. Grace & Co.* v. *Hargadine*, 392 F.2d 9 (6th Cir. 1968); *Amberley Co.* v. *Brown Co.*, 408 F.2d 1358 (6th Cir. 1969). As the Sixth Circuit recently stressed:

> "The patent monopoly is a reward to the inventor. But such is not the case with a trade secret. Its protection is not based on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another's secret." *W. R. Grace & Co.* v. *Hargadine, supra*, quoting RESTATEMENT OF TORTS § 757, comment b (1939).

In the absence of proof that defendant's use of the secret stems from a breach of faith owed to the trade secret holder, liablity is nonexistent. *Grob Plating Co.* v. *Kent-Owens Mach. Co.*, 10 Ohio L. Abs. 367 (Ct. App. 1931). For ex-

ample, in *Amberley Co.* v. *Brown Co., supra,* a trade secret owner failed in an action for trade secret misappropriation because he failed to establish that defendant's use of the purported trade secret stemmed from knowledge obtained from the trade secret owner. Although KVP (The Brown Company's predecessor in interest) obtained the trade secret from a third party who was under a confidential relationship with Amberley Company, it did so without knowledge that the disclosure was in breach of a duty owed to Amberley by the third party. No confidential relationship owed by KVP to Amberley Company was breached, no improper means utilized, and hence, no liability.[3] In no reported case in Ohio has one been enjoined from using or divulging a trade secret who did not take the trade secret in violation of a confidential relationship or by improper means.

The rights recognized under almost one hundred years of Ohio common law provide Kewanee with a cause of action only against those who obtain its trade secrets through improper means or who use them in violation of a confidential relationship. The decision below failed to recognize this limitation on the exercise of the cause of action. Believing as it did that Kewanee sought in gross property rights in the trade secret, the result reached by the Court is not surprising. However, when viewed in the context of the basis for trade secret protection in Ohio, an appealing reason for finding preemption is eliminated. To conclude otherwise is to overlook or misinterpret a large body of established law to the contrary.

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[3] Of course, had the process been patented, these facts would be irrelevant and Amberley might have prevailed.

B. THE RIGHT TO PREVENT OTHERS FROM USING A TRADE SECRET OBTAINED BY IMPROPER MEANS OR USED IN VIOLATION OF A CONFIDENTIAL RELATIONSHIP EXTENDS ONLY SO LONG AS THE TRADE SECRET IS NOT A MATTER OF GENERAL KNOWLEDGE IN THE INDUSTRY.

A trade secret has an uncertain life. Its holder may assert his rights only so long as the secret is in fact a secret, i.e., not general knowledge in the industry. Others fairly learning of the trade secret, as for example, through independent effort or reverse engineering, are free to use the secret. So too are others free to use it if the trade secret owner releases the secret to the public or if the trade secret is obtained from one having the unrestricted right to disclose the secret. *Cincinnati Bell Foundry Co.* v. *Dodds, supra; National Tube Co.* v. *Eastern Tube Co., supra.*

Kewanee's rights are not unlimited in time as the Court below concluded, and Ohio does not afford protection against competitors who learn of the trade secret through the exercise of independent and proper means.

II. THE INTERESTS PROTECTED BY THE OHIO LAW OF TRADE SECRETS ARE DIFFERENT FROM, AND DO NOT CONFLICT WITH, FEDERAL PATENT POLICY.

The United States Patent Laws give to the patentee the right to exclude *all others* from making, using or selling the patented invention.[4] Ohio trade secret law provides a trade secret holder with a cause of action *only* against those who obtain his trade secrets through improper means or where the use is in violation of a confidential relationship, and then, *only* so long as the trade secrets remain secret. Ohio trade secret law does not prohibit or exclude fair competition, prohibit use of a trade secret by he who legitimately discovers or obtains it, or protect ideas in the public domain as did the state laws in *Sears, Compco* and *Lear, supra.*

The federal patent laws exist to encourage disclosure of invention. In exchange for disclosure, the inventor is rewarded a seventeen-year monopoly. *Universal Oil Products Co.* v. *Globe Oil & Refining Co.,* 322 U.S. 471 (1944). However, neither the federal patent laws nor the Constitution *require* disclosure of all inventions and discoveries. This Court has acknowledged that an inventor may either hold his discovery secret or opt for all the advantages and benefits afforded by the patent laws. *United States* v. *American Bell Telephone Co.,* 167 U.S. 224 (1897).

Ohio trade secret law, on the other hand, exists to deter dishonesty, immorality, criminal activity, breach of contract or fiduciary duty, unfair dealing, and fraudulent abuse of trust. The prevention of such activities is historically uniquely a state interest. The recognition of a cause of action in Ohio for theft of technology not in the public

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[4] 35 U.S.C. § 154 (1952).

domain and criminal prosecutions therefore is a judicial and legislative recognition that competition, however desirable, must be confined to competition by fair means. This has been well expressed by Ohio courts.

> "We are aware that under present economic conditions it is the purpose of the law to foster competition. . . . But the competition thus fostered and encouraged must be legitimate. With the unfolding of our social conscience, the ethical standard in the business world is being elevated. . . .
>
> We are demanding honesty of method and integrity of purpose in our industrial life. Misrepresentation and fraud elicit public condemnation. One who seeks to gain the confidence of the people must offer as a foundation for such confidence the merit of his own product and the honesty of his own methods. He can not in good conscience offer as his own that which he has not himself produced and which he has obtained by unconscionable means from those whose wares he seeks to displace." *Crown Overall Mfg. Co.* v. *Levy Overall Mfg. Co.*, 16 Ohio N.P. (n.s.) 561, 564-65 (Super. Ct. 1914), quoted with approval in *Fremont Oil Co.* v. *Marathon Oil Co.*, 92 Ohio L. Abs. 76, 86-87, 192 N.E.2d 123, 129 (C.P. 1963).

That this policy of the State of Ohio is not in conflict with federal patent policy of encouraging disclosure of inventions is evident. If Ohio trade secret law offered benefits greater than or even equal to the benefits afforded under the patent laws, it might be argued that Ohio gives to inventors protection which they could not obtain under the patent laws thereby making the reward of a seventeen-year monopoly nugatory and thereby discouraging disclosure of discoveries. However, as demonstrated above, the rights afforded by Ohio law are limited and do not approach the

advantages and benefits obtainable under the patent laws.[5] This Amicus respectfully submits that Ohio trade secret law does not give inventors an economic incentive for keeping their discoveries secret and, accordingly, that Ohio trade secret law does not conflict, either directly or indirectly, with the United States Patent Laws.

CONCLUSION

As demonstrated by the foregoing analysis, Ohio's recognition of a right to prevent the unprivileged use or disclosure of a true trade secret does not provide a trade secret owner with the right to prevent all others for an unlimited time from using technology in the public domain. It is impossible for this Amicus to believe that the drafters of our Constitution, the various Congresses which have approved statutes recognizing the existence of trade secrets, and the various members of this Court who have recognized the existence of trade secrets intended that competition should be based upon unfair practices or that the several States should be ousted from the exercise of their legitimate powers to promote free and fair competition and to raise the ethical standard of industrial life within their borders merely because a federal patent scheme exists. To so hold will be to foster industrial espionage, commercial piracy and the like, all of which will be greatly detrimental to the citizens of Ohio and to all citizens of the United States.

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[5] Moreover, the entire legal, philosophical and practical basis of Ohio trade secret law differs from that of the patent law. For the convenience of this Court these differences have been summarized in a Table appearing in Appendix B.

For the reasons stated, the judgment of the Sixth Circuit should be reversed, and the case remanded with instructions to affirm the decision of the District Court.

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December, 1973

APPENDIX A

1333.51 Theft or conversion of trade secret.

(A) As used in this section:

(1) "Article" means any object, material, device, or substance, or copy thereof, including any writing, record, recording, drawing, sample, specimen, prototype, model, photograph, blueprint or map.

(2) "Representing" means describing, depicting, containing, constituting, reflecting, or recording.

(3) "Trade secret" means the whole or any portion or phase of any scientific or technical information, design, process, procedure, formula, or improvement, or any business plans, financial information, or listing of names, addresses, or telephone numbers, which has not been published or disseminated, or otherwise become a matter of general public knowledge. Such scientific or technical information, design, process, procedure, formula, or improvement, or any business plans, financial information, or listing of names, addresses, or telephone numbers is presumed to be secret when the owner thereof takes measures designed to prevent it, in the ordinary course of business, from being available to persons other than those selected by the owner to have access thereto for limited purposes.

(4) "Copy" means any facsimile, replica, photograph, or reproduction of an article, or any note, drawing, or sketch made of or from an article.

(B) No person shall, with intent to deprive or withhold from the owner thereof the control of a trade secret, or with intent to convert a trade secret to his own use or the use of another, obtain possession of or access to an article representing a trade secret.

(C) No person, having obtained possession of an article representing a trade secret or access thereto with the owner's consent, shall convert such article to his own use or that of another person, or thereafter without the owner's consent make or cause to be made a copy of such article, or exhibit such article to another.

(D) No person shall, by force, violence, threat, bribe, reward, or offer of anything of value on or to another person or member of his family, obtain or attempt to obtain from such other person an article representing a trade secret.

(E) No person shall, without authorization, enter upon the premises of another with intent to obtain possession of or access to an article representing a trade secret.

APPENDIX B

COMPARISON OF NATURE AND PRACTICALITIES OF PATENT AND TRADE SECRET PROTECTION

	Patent Law	Ohio Trade Secret Law
Ideas Protected	A process, machine, manufacture, or composition of matter, or new use thereof.[1]	A formula, pattern, device, process, or compilation of information.[2]
Right Afforded	To exclude others from making, using or selling the invention throughout the United States.[3]	Not to have the secret made public by theft, bribery, stealth, or by breach of confidential relation. No exclusive right to it against the public or against those who, in good faith, acquire knowledge of it.[4]
Term of Right	17 years.[5]	Uncertain. Immediately ceases upon (a) disclosure to public by trade secret owner, (b) issuance of a patent disclosing the trade secret, (c) the trade secret becoming generally available to the public or to members of the industry, (d) acquisition from a third party having the legal right to convey the

	Patent Law	Ohio Trade Secret Law
		information, (e) acquisition from a third party without notice that it was a secret and that third party's disclosure was a breach of his duty or that third party obtained it by improper means, (f) discovery by examination of products sold or offered for sale to public, (g) discovery by any other fair and honest way.[6]
Requirements For A Successful Case	Proof of (a) patent grant, (b) ownership, (c) infringement.[7]	(a) Identify alleged secret, (b) proof that alleged secret is in fact a secret,[8] (c) adoption of security measures to assure secrecy,[9] (d) use of reasonable and enforceable agreements or other confidential relationships with those to whom the secret is revealed prohibiting disclosure of secret, (e) proof that defendant's use of secret was obtained from plaintiff by breach of contract or confidence or by other improper means,[10]

	Patent Law	Ohio Trade Secret Law
		(f) establish that the secret is not revealed by inspection or analysis of any marketed product,[11] (g) establish that defendant was or was threatening to use or disclose secret.[12]
Defenses	(a) Non - infringement, (b) invalidity for anticipation or obviousness.[13]	(a) Negation of any one of the above, (b) independent development by defendant or others.[14]
Presumptions	Presumption of validity.[15]	None.
Relief Available	Damages and injunction against any infringer from making, using or selling patented invention for term of patent. Can enjoin all competitors.[16]	Damages and injunction against he who obtained secret by improper means from using or disclosing secret. Cannot enjoin competition.[17] Injunction likely to be limited in time.[18]
Underlying Policy	Encourage discovery and disclosure of useful inventions.[19]	Deter dishonesty, immorality, criminal activity, breach of contract or fiduciary duty, unfair dealing, and fraudulent abuse of trust.[20]

[1] 35 U.S.C. § 101 (1952).

[2] *B. F. Goodrich Co.* v. *Wohlgemuth*, 117 Ohio App. 493, 498, 192 N.E.2d 99, 104 (1963).

[3] 35 U.S.C. § 154.

[4] *W. R. Grace & Co.* v. *Hargadine*, 392 F.2d 9 (6th Cir. 1968); *B. F. Goodrich Co.* v. *Wohlgemuth*, 117 Ohio App. 493, 192 N.E.2d 99 (1963); *Curry* v. *Marquart*, 133 Ohio St. 77, 11 N.E.2d 868 (1937); *National Tube Co.* v. *Eastern Tube Co.*, 3 Ohio C.C.R. (n.s.) 459 (Ct. App. 1902), *aff'd*, 69 Ohio St. 560, 70 N.E. 1127 (1903); *Cincinnati Bell Foundry Co.* v. *Dodds*, 19 Weekly L. Bull. 84, 10 Ohio Dec. Reprint 154 (Super. Ct. 1887).

[5] 35 U.S.C. § 154.

[6] Cases cited note 4 *supra*; *Amberley Co.* v. *Brown Co.*, 408 F.2d 1358 (6th Cir. 1969).

[7] 35 U.S.C. §§ 154, 271, 281.

[8] *Cincinnati Bell Foundry Co.* v. *Dodds*, 19 Weekly L. Bull. 84, 10 Ohio Dec. Reprint 154 (Super. Ct. 1887).

[9] *W. R. Grace & Co.* v. *Hargadine*, 392 F.2d 9 (6th Cir. 1968); *B. F. Goodrich Co.* v. *Wohlgemuth*, 117 Ohio App. 493, 192 N.E.2d 99 (1963).

[10] *W. R. Grace & Co.* v. *Hargadine*, 392 F.2d 9 (6th Cir. 1968); *Cincinnati Bell Foundry Co.* v. *Dodds*, 19 Weekly L. Bull. 84, 10 Ohio Dec. Reprint 154 (Super. Ct. 1887).

[11] *National Tube Co.* v. *Eastern Tube Co.*, 3 Ohio C.C.R. (n.s.) 459 (Ct. App. 1902), *aff'd*, 69 Ohio St. 560, 70 N.E. 1127 (1903).

[12] *B. F. Goodrich Co.* v. *Wohlgemuth*, 117 Ohio App. 493, 192 N.E. 2d 99 (1963).

[13] 35 U.S.C. § 282.

[14] *National Tube Co.* v. *Eastern Tube Co.*, 3 Ohio C.C.R. (n.s.) 459 (Ct. App. 1902), *aff'd*, 69 Ohio St. 560, 70 N.E. 1127 (1903); *Cincinnati Bell Foundry Co.* v. *Dodds*, 19 Weekly L. Bull. 84, 10 Ohio Dec. Reprint 154 (Super. Ct. 1887).

[15] 35 U.S.C. § 282.

[16] 35 U.S.C. §§ 283-84.

[17] *Curry* v. *Marquart*, 133 Ohio St. 77, 11 N.E.2d 868 (1937).

[18] *Fremont Oil Co.* v. *Marathon Oil Co.*, 92 Ohio L. Abs. 76, 192 N.E.2d 123 (C.P. 1963); *Monitor Stove Co.* v. *Williamson Heater Co.*, 18 Ohio App. 352 (1923).

[19] *Universal Oil Products Co.* v. *Globe Oil & Refining Co.*, 322 U.S. 471 (1944).

[20] Cases cited note 4 *supra*; *Fremont Oil Co.* v. *Marathon Oil Co.*, 92 Ohio L. Abs. 76, 192 N.E.2d 123 (C.P. 1963).

SUPREME COURT, U. S.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY, *Petitioner*

v.

BICRON CORPORATION, ET AL., *Respondents*

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

BRIEF FOR AMICUS CURIAE NATIONAL PATENT COUNCIL, INC., FOR ITSELF AND REPRESENTING NATIONAL SMALL BUSINESS ASSOCIATION, INC.

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Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY, *Petitioner*

v.

BICRON CORPORATION, ET AL., *Respondents*

On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

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BRIEF FOR AMICUS CURIAE NATIONAL PATENT COUNCIL, INC., FOR ITSELF AND REPRESENTING NATIONAL SMALL BUSINESS ASSOCIATION, INC.

INTRODUCTION

National Patent Council, Inc., (NPC) is filing this brief *amicus curiae* with the consent of all parties. Letters evidencing such consent are attached to the brief *amicus curiae* filed herein. NPC, in this matter, is also representing the National Small Business Association, Inc., (NSB) with which it is affiliated.

The Court of Appeals for the Sixth Circuit has ruled that the trade secret law of the State of Ohio—and, by the Court's reasoning, of the other States which have similar laws—is preempted by the United States Constitution and the Federal patent law. *Kewanee Oil Co.* v. *Bicron Corp.*, 478 F.2d 1074 (6th Cir. 1973). This Court has issued a Writ of Certiorari to the Sixth Circuit to review that opinion.

It is with great ambivalence and consequent reluctance that NPC submits this brief. The members of NPC and NSB employ both the patent system, as established by the Federal laws, and various applicable state trade secret laws as a means of obtaining a modicum of protection for their ideas and invention. As a result of their employment of trade secret laws, the members of the *amicus* have the same high personal interest evidenced and stated in the numerous other *amicus curiae* briefs already filed on behalf of the *petitioner*. However, on balance, NPC and NSB believe that the patent system serves their interest the best. It may be asked as to what does this mean with respect to the instant matter. It will become understandable when one considers that there has been a considerable denigration of the United Stats patent system, as evidenced by the fact that only twenty-eight percent of litigated patents are deemed to be valid by the Circuit Courts of Appeal. As a result, many of the members of NPC and NSB have regretfully turned to the alternative to the patent system for the protection of their ideas and inventions. The chief of such an alternative is based upon the various state trade secret laws and contractual arrangements between concerned parties; this alternate means will be termed merely trade secrets hereinafter.

Trade secrets give vent to a natural emotional inclination towards secrecy; are relatively easily defined; are simply maintained by one or more contractual arrangements with employees who basically are desirous of being faithful to the contract and want to do no wrong. When matters pertaining to trade secrets have been litigated, the owner of the trade secrets has been successful in forty-seven percent of the time. *John J. Mahon, Jr., Trade Secrets and Patents Compared, Journal of the Patent Office Society*, Vol. 50, No. 8, p. 536-553 at p. 540 (1968).

The patent system on the other hand requires honest disclosure, incurs considerable expenses, imposes a stringent standard of patentability and under current climate results in tenuous exclusivity, permitting the patent holder to be successful only twenty-nine percent of the time. *Journal of the Patent Office Society, supra.* Is it then any wonder that trade secrets have become a more often used tool in protecting inventions, including those that would ordinarily be patenable.

The members of NPC and NSB have come to the conclusion that on balance the patent system properly supported and recognized presents a more valuable road to achieving a degree of exclusivity that permits them to establish and exploit a market for the benefit of the members of the *amicus*, but also for the public interest in being provided with access to new items marketed and access to the information that resulted in the commercialized item. The members of the *amicus* have therefore concluded that the socio-economic benefit available from a respected patent system is greater than that achieved by the use of a trade secret system. As has been stated, the patent system commands less respect than heretofore. As a result, trade

secrets are now most prevalent alternate means for achieving protection for ideas and inventions. A reversal by this Court of the holding of the Sixth Circuit Court of Appeals will, by giving a Supreme Court imprimatur to trade secrets, lead to further disinterest in the patent system. If, as has been postulated, or at least implied, in the above, that there are defects or shortcomings in the patent system, this Court should not in essence be put to the posture of correcting deficiencies in the patent system by being asked to rule in a way which will encourage greater use of trade secrets, with concomitantly less respect for the patent system. The correction of the deficiencies found in any system for protecting inventions properly belongs to the province of the Congress. There are those that might argue that there is no valid relationship between protecting secrets by a trade secret system and a patent system. Nevertheless, both systems are designed to retain exclusivity over an idea or invention; this cannot be denied nor then can their relationship.

IDENTITY OF AMICUS CURIAE

NPC is a non-profit business association organized under the laws of the state of Indiana and maintains its principal offices at Suite 409, 1225 19th Street, N.W., Washington, D.C., 20036. NPC is an association comprising members, individuals, and companies. The individuals and companies through their employees utilize the patent system and are therefore interested in preserving it to its fullest extent. The reward of the grant of a patent is a property right giving the holder of the patent a right to exclude others from making, using, and selling the invention disclosed as claimed essentially within the framework

of one or more claims attached to the end of the disclosure (known as the specification) of the patent. In exchange for this property right, the inventor must disclose his invention in such a manner as to enable one skilled in the art to understand the invention. This enables others to design around the claims of the patent and, ultimately, to use the disclosure of the inventor to further technology.

The NPC members include such individuals as inventors, patent attorneys, and academicians throughout the United States. NPC company members include from small R&D companies up to and including the largest corporations. Moreover, NPC, through its affiliation with NSB represents on patent matters this 45,000 member organization whose membership includes establishments in hundreds of different business categories. The membership qualifications of the National Small Business Association are parallel to those employed by the Small Business Administration in designating small business.

INTEREST OF AMICUS CURIAE

The aforementioned membership of NPC and NSB have a material concern in the ultimate outcome of the decision to be rendered by this Court in the instant matter. If the position of the Circuit Court is not sustained,

(1) "Patentable" inventions would be maintained as trade secrets, perhaps indefinitely, and thus provide monopolies for an unlimited length of time for the inventors, rather than the seventeen year right of exclusion provided for in Title 35 U.S.C. NPC and NSB would be denied access to such patentable inventions for an indefinite period.

(2) Technological advances and innovations would be kept secret for the use only of the developers and by the licensees of the developer; without publication and dissemination of information, advances in technology will be severely curtailed. NPC and NSB would not have access whereby new improvements and new discoveries could be made with public knowledge constituting a base.

(3) Mobility of technical employees will be interfered with, as companies will be reluctant to hire away competitors' employees and employees will in turn be reluctant to seek other employment for fear of legal action to protect former employer's trade secrets. NPC and NSB will be denied increased membership as employees will be discouraged from starting their own small businesses.

QUESTION TO BE RESOLVED

Do the patent laws passed by the Congress of the United States based on the Constitutional provision, Article I, Section 8, Clause 8, preempt under the supremacy clause of the Constitution, Article VI, Clause 2, the state laws, especially the state of Ohio, pertaining to trade secrets whereby those who violate or are about to violate said state laws may be enjoined from using trade secrets obtained due to contractual and/or employment agreements?

I. FEDERAL PATENT LAW PREEMPTS STATE TRADE SECRET LAW

A. Trade Secrets and Patents Accomplish a Similar Purpose

Prior to the adoption of the Constitution, several states, including New York, had granted patents, giving the owner of the patents exclusive rights in the invention within the limits of the states. However,

when the Constitution was adopted, provision for a federal patent system was made one of the enumerated powers of Congress, in Article I, Section 8, Clause 8, which reads:

"The Congress shall have power . . ."

"To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries;"

Of course, in order to achieve uniformity in those areas in which Congress was to act, the Constitution provided that state law was to be subordinated to federal law where Congress had seen fit to act. Specifically, the Supremacy Clause, Article VI, Clause 2, provides that:

"This Constitution, and the Laws of the United States which shall be made in pursuance thereof, and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every state shall be bound thereby, anything in the Constitution or Laws of any State to the contrary notwithstanding".

Federal patent law preempts state protection of intellectual property, as federal policy embodied in the federal statutes and Constitutional provisions may not be set at nought by state law. *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173 (1942). Congress acted under its Constitutional mandate to provide for protection of inventors' discoveries in the guise of the present Patent Act, Title 35 U.S.C. §§101 et seq. In that Act, the requirements for patentability, i.e., what Congress considered to be protectible, were clearly enumerated. Had Congress wished to protect

inventors' discoveries by protecting trade secrets, provisions for such protection would have been made in the present patent statute.

Article I, Section 8, Clause 8, does not define the method to secure to inventors the exclusive right to their discoveries. Neither the term patents nor the phrase trade secrets appears in the clause. The Congress of the United States has chosen to accomplish the purpose through the patent laws. It is submitted that the Congress could have accomplished the Constitutional purpose by in fact employing essentially the same type of terminology and verbiage found in most state trade secret laws. On the other hand, it is undoubtedly universally admitted that due to the supremacy clause the states could not validly pass laws that would in fact be called "state patent laws." In recent years the law has sometimes recognized that trade secrets is a kind of private patent. S. C. Gilfillan, *Invention and the Patent System presented for consideration of the Joint Economic Committee Congress of the United States 88th Congress 2d Session*, p. 153 (1964). Obviously, the test between patents and trade secrets is not whether the words are the same—they are not—but, as the Constitution is silent with regard to the words, the test should be whether both through the operation do the same thing, i.e., promote the progress and useful arts by securing for limited times to inventors the exclusive right to their discoveries (a paraphrase).

B. Even Though Congress Has Acted Under the Constitution Competition Continues to be A Paramount Concern

Congress clearly demonstrated its desire to exercise its full grant of constitutional power in enacting the patent statutes. Its constitutional power could

have been exercised in one of two ways: either by protecting all intellectual property, e.g., the species thereof, namely, patents, including protecting some forms of intellectual property as secrets by providing for injunctions to maintain the intellectual property in confidentiality, or by protecting only those ideas which meet certain standards defined by Congress for patentability and leaving open to competition all other forms of intellectual property. In *Sears, Roebuck, & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964), and its companion case, *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, 140 USPQ 528 (1964), the Court determined that, with respect to patents, the ordinary practice of legislative construction could not be used because of the overriding interest in enhancing competition. In view of the importance of not imposing unnecessary restraints on competition, the Court adopted in those cases a rule of construction providing that, unless Congress' failure to provide patent protection for some class of works could clearly be shown to reflect a judgment that state regulation was permitted, the silence of Congress would be taken to reflect a judgment that free competition should prevail. It is obvious from *Sears* and *Compco* that Congress has decided that free competition should be the general rule, unless it is convinced that the failure to provide patent or trade secret protection is hindering "the progress of science and useful arts".

In *Sears*, the Court held that the federal patent statutes reflect a Congressional determination that "the progress of science and useful arts" is best served by limiting the right to exclude others from new developments to "genuine invention," and that for a period no longer than fourten or seventeen years,

and that states may not "under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of federal patent laws." 376 U.S. at 231, 140 USPQ at 58.

The Supreme Court noted in *Sears* that with respect to every particular item within general classes enumerated in the relevant statutes, Congress balanced the need to promote invention against the desire to preserve free competition, and had concluded that it was in the national interest to preserve competition as to every item that could not be patented. That is, the fact that some item could not be patented demonstrated that, in the judgment of Congress, it was best to let competition in the production of that item go unrestricted.

The original objective of granting exclusive rights to a patentee was to benefit the public or community at large. *Kendall* v. *Winsor*, 62 U.S. 322 (1858). The basis of the United States industrial system is a free economy. The encouragement of technological advancement is vital to the maintenance of our economic system and of our industrial productivity. The patent statutes foster this technological advancement within the free economy by requiring full disclosure of the invention as a condition to the grant of exclusivity, so that at the end of the period of exclusivity the development may be freely available. 35 U.S.C. §§101 et seq. These statutes reflect Congressional determination that any individual or social interests which may be served by secrecy are outweighed by those served by full disclosure, for if dissemination of technological information is impaired, competition is fettered and it is the public which is ultimately injured, *Abbott Laboratories* v. *Norse Chemical Corp.*, 33 Wis.2d 445, 147 N.W.2d 529, 152 USPQ 640 (1967).

The free flow of information provided by patent disclosure is of particular importance to NPC and NSB members, many of whom are small businesses founded on patents. When a patent issues, industry is informed of the new development embodied in the patent and often recognizes a commercial trend wherein patentable improvements are possible. To cite merely one example, whole new industries have been developed based on patented processes in oil refining. Research is fostered because its findings can be protected by patents, and publication of results can be more complete and widespread, thus cutting down duplication of work and furnishing a basis for further study and experimentation. For fifty cents, anyone can purchase a patent, which gives complete and detailed information as to the nature of the invention. The alternative to patents is secrecy, and piracy of processes and methods would become common practice as a necessity to compete. Systems of espionage would develop for obtaining information on new processes and products so that they could be used by competition without consideration of inventors' rights. Manufacturing concerns could easily be put out of business by such thefts. Under such conditions, it is questionable whether small businesses could survive. Those employed in industries would be enjoined from normal discussion of their work either outside or inside of their company, and cooperative research efforts would be frustrated. One invention always promotes others, and inventors react catalytically on one another. Dr. Gustav Egloff, Invention and the Oil Industry, *Journal of the Patent Office Society*, Vol. 26, p. 834 (1944).

The chaos which would result from industry's reliance on trade secret protection rather than on patent protection was recognized by Mr. Abe Fortas in 1971, who stated,

"Unless we can fashion a patent system in which genuine invention and the public disclosure of invention are fostered and promoted, and the appropriate exploitation of invention is protected, we will garner not the fruits of competition, but the chaos of guerrilla warfare and the stagnation of a closed and secret industrial society": *Speech before Association of Corporate Patent Counsel*, January 19, 1971.

C. Trade Secrets By Encouraging Secrecy Hinder Inventive Progress

Disclosure of the invention in return for a period of exclusivity provides another benefit to the public, as those coming later are able to improve on what is disclosed or to design around it to avoid infringing a patent. *Merrill* v. *Yeomans*, 94 U.S. 568 (1876). Of course, at the end of the seventeen year life of a patent, the development is freely available to all. 35 U.S.C. §154.

The patent statutes reflect a Congressional determination that any individual or social interests which may be served by secrecy are outweighed by those served by full disclosure. This was recognized early in the history of the patent statutes by this Court, where it was noted that the inventor who keeps his invention secret by applying it indefinitely and exclusively for his own profit comes not within the policy and objects of the Constitution, or acts of Congress. He does not promote, and, if aided in his design, would impede the progress of science and the useful arts. And with a very bad grace could he appeal for favor or protection to that society which he had neither benefited nor intended to benefit. *Kendall* v. *Winsor*, 62 U.S. 322, 328 (1858). Very clearly, then, state law providing protection for trade secrets cannot be ap-

plied to serve a premise that a balance of the interests favor secrecy. State law protecting trade secrets cannot be based on a policy of rewarding or encouraging development of secret processes or devices—such protection can merely be against breach of faith and reprehensible means of learning another's secret. *Winston Research Corp.* v. *Minnesota Mining and Manufacturing Co.*, 350 F.2d 134, 146 USPQ 422 (9th Cir. 1965).

There can thus be no legally protectible interest in the secrecy of industrial information as such, as distinguished from an interest in the integrity of confidential employer-employee relations, *Sears*. No matter how compelling the reasons, states cannot give protection of a kind that clashes with the objectives of the federal patent laws under the Supremacy Clause of the Constitution. The Seventh Circuit decision that was reversed in *Sears* was based on protecting the state's interest in commercial honesty. The Supreme Court made it clear in *Sears*, however, that interests in commercial morality were not sufficient to prevent a holding of preemption if a conflict between protecting such interests and a federal patent policy were found.

This is not to say that an owner of an invention does not have an absolute right to keep the idea secret and for his own benefit exclusively. However, it is completely another thing to argue that the owner of the invention has an absolute right to lawfully disclose his invention to third parties, such as employees or licensees, and then assert that he has an absolute right to the protection of the confidentiality of the relationship he has created in order to commercially exploit the invention and to employ the courts for anticompetitive practices, such as an injunction may afford.

D. There is Not a Sufficiently Large Local Interest to Permit State Action

In *Goldstein* v. *State of California*, ——U.S.——, 93 S.Ct. 2303, 178 USPQ 129 (1973), this Court held that federal copyright law does not preempt state copyright protection because, in the case decided, there was enough local interest involved to justify purely local copyright protection for the material involved. This decision is being used to justify the position that federal patent law does not preempt state trade secret law.

However, the rationale of *Goldstein* in holding no federal preemption for copyrights cannot be applied to patents. Federal patent law was designed to give an exclusive right to use a technological type of intellectual property, i.e., process, machine, article of manufacture, and there can be no purely local interest in technology.

Moreover, the analogy cannot be drawn between patents and copyrights, because of the vastly different nature of the protection afforded. A patent gives an exclusive property in the art described therein after examination by the Patent Office. This exclusive property can only be secured by a patent from the government. A copyright, on the other hand, only gives the exclusive right of printing and publishing, and gives no exclusive rights to anything described therein. *Baker* v. *Selden*, 101 U.S. 99 (1879).

II. JUDICIALLY PROTECTED TRADE SECRETS ARE MANIFESTLY UNFAIR

A. Trade Secrets May Prolong Monopoly for an Unlimited Length of Time

Trade secrets as such should not be given protection by the courts because such protection puts a burden on competition by suppressing the flow of technologi-

cal information for an indefinite length of time. In the interest of uniformity and unburdened competition, relief for trade secret violations by way of damages or injunction should not be allowed. *Van Products Co.* v. *General Welding & Fabricating Co.*, 419 Pa. 248, 213 A.2d 769, 147 USPQ 221 (1965).

Both trade secrets and patents are means to obtain a competitive advantage, in that both give to their owners exclusive exploitation of ideas. A patent owner can make something or utilize a process because no one else is permitted to for a statutorily prescribed length of time, but a trade secret owner can make something or utilize a process which no one else can because no one else knows how, and this exclusivity can theoretically last forever. While the patent owner has exclusivity created by law for a limited time, the trade secret owner has a monopoly in fact, which lasts until the secret is made public either by disclosure thereof by the owner or someone to whom he has disclosed the secret, or by someone who discovers the secret independently. An example can be given of a process for smelting ore, wherein a process is developed to make the entire operation vastly more economical, yet the end product is the same. By inspection of the ultimate product there is no way to determine the process used in obtaining it, and there is thus no way to reverse engineer the product to discover the secret. Because there is theoretically no time limit to the length of a trade secret monopoly, judicial protection of trade secrets runs counter to the rationale of the patent system wherein the period of exclusive right to practice the invention is limited by statute to seventeen years. It should be noted that it is the availability of *permanent* injunction which induces the inventor to elect protection via trade secret

law. Adelman, *American Patent Law Association, Quarterly Journal*, Vol. 1, No. 4, Fall (1973), p. 295, Secrecy & Patenting: Proposals for Resolving the Conflict.

B. Trade Secrets Inhibit Job Mobility of Technically Trained Personnel

The law of trade secrets has developed in large part to deal with a particular problem in American industry-employee mobility among key employees of an industrial concern. When an employee changes jobs, it is inevitable that some of the employee's previously acquired knowledge will be made available to his new employer. One of the problems that arose under the concept of trade secret protection was where do trade secrets begin and the employee's intellectual tools of the trade end? Two conflicting social and economic philosophies must be balanced: protection of rights in proprietary knowledge gained by research and initiative versus the interests in free competition and use of an individual's skill for his own benefit and the benefit of the general public. *Space Aero Products Co.* v. *R. E. Darling Co., Inc.*, 208 A.2d 74, 145 USPQ 356, 238 Md. 93 (1965).

All knowledge gained by an employee during the course of his employment is not a trade secret, even though the employer may feel that many trade secrets are involved. The employee's relationship to the employer may be confidential, but not the knowledge. It has long been accepted that that which by experience has become a part of a man's general knowledge cannot and ought not be enjoined from further and different uses. Law of trade secrets is not designed to be used by employers to retain emplyoees by the threat of rendering them substantially unemployable

in the field of their experience should they decide to resign. *Cudahy Co.* v. *American Laboratories, Inc.*, 313 F.Supp 1339, 167 USPQ 230 (D. Nebraska, 1970). In our free economy, social mobility is a chief characteristic. An employee who is dischargeable at will is under no obligation to treat his employer otherwise or with more consideration than he can be treated by him. By overstrict restriction of use of skills and knowledge, we create a monopoly of first users, an undesirable situation in our society if we acknowledge the desirability of encouraging individual business enterprises and initiative, which we do. *Schulenberg et al, doing business as Time-O-Matic Co.* v. *Signatrol, Inc.*, 167 F.Supp. 20 (E. D. Ill. 1958), aff'd 267 F.2d 388 (7th Cir.), cert. denied, 361 U.S. 886 (1959).

The basis of trade secret protection is an attempt to enforce morality in business, a worthwhile motive, but as discussed *supra* the state laws favoring trade secrets have been preempted by the federal patent statutes. Notwithstanding federal preemption, trade secret doctrine, under the guise of unfair competition, deals with an area that is nebulous as to guidelines to be applied.

The policy reasons for protecting trade secrets are to prevent exploitation of competitors by reprehensible business methods and to encourage innovation. *Water Services, Inc.*, v. *Tesco Chemicals, Inc.*, 410 F.2d 163, 162 USPQ 321 (1969 5th Cir.). The problem with this rationale for protecting trade secrets is that there will be much less innovation when everyone is working in secret than when inventions are disclosed in exchange for protection as envisaged by the patent laws. Innovation is spurred by the free exchange of ideas, and if discoveries which are patentable are not

afforded protection as trade secrets, the inventors will turn to the patent system for protection. Then, in exchange for the limited exclusivity afforded by the patent, they will disclose their invention so that all may practice it after seventeen years. Additionally, while the patent is still in force, others may use the patentee's disclosure to make improvements on the basic idea, or may find ways to design around the property rights defined by the patent claims and thus avoid infringement during the life of the patent. It is difficult to imagine this type of free exchange of technological information when everyone is conducting operations in secret. As exchange of information is vital to technological development, secret operations put a substantial limit on development and also on innovation.

This is not to say that a person *must* disclose all of his ideas immediately. Rather, in the interest of preserving a free economy and encouraging technological development through free exchange of ideas, those who wish protection of allegedly patentable inventions must obtain such protection from the patent system rather than relying on courts to enforce trade secrets.

There should be no judicial recognition of a legally protectible interest in secrecy of industrial information as such, as distinguished from an interest in integrity of confidential employer-employee relations. *Sears, Roebuck & Co.* v. *Stiffel Co.*, *supra*.

Restrictions on the use of information acquired in the course of a terminated employment relationship limit the employee's employment opportunities, tie him to a particular employer, and weaken his bargaining power with that employer. Such restrictions inter-

fere with the employee's movement to the job in which he may most effectively use his skills. They may inhibit an employe from either setting up his own business or from adding his strength to a competitor of an employer, and thus diminish potential competition. Such restrictions impede the dissemination of ideas and skills throughout the industries. The burdens which they impose on the employee and society increase in proportion to the degree of the employee's specialization and significance of his accomplishments.

The skill and knowledge obtained by an employee in the course of employment are not the employer's property, but belong to the employe. The employee has an unqualified privilege to use technical knowledge acquired by virtue of employment. *Wexler et al, trading as Buckingham Wax Co.* v. *Greenberg*, 399 Pa. 569, 160 A.2d 430, 125 USPQ 471 (1960).

The major problem is the attempt to balance the right of the businessman to be protected against unfair competition stemming from usurpation of his trade secrets and rights of the individual against the rights of the individual to the unhampered pursuit of occupations and livelihood for which he is best suited. *Any* form of post-employment restraint reduces the economic mobility of employees and limits their personal freedom to pursue a prefered course of livelihood. The employee is potentially shackled by the acquisition of the alleged trade secrets, and thus he is restrained because of his increased expertise from advancing further in the industry in which he is most productive. Society suffers because competition is diminished by slackening the dissemination of ideas, processes, and methods.

The sentiment of the law heavily favors protecting the individual in the unrestricted pursuit of a livelihood over protecting a businessman from certain forms of competition. The individual can be protected as well as the businessman by requiring the utilization of the patent system, in which the buinessman's intellectual property rights are secured, yet the individual is permitted to freely advance in his area of expertise.

Of course, there is no incentive to use the patent system if trade secret protection is available to protect intellectual property which could otherwise be patented. For a corporation willing to take the precautions required to protect a trade secret, there is the possibility of a monopoly for an unlimited amount of time on utilization of the trade secret. This unlimited monopoly runs counter to the intent of the federal patent system which requires complete disclosure of the invention to the public in exchange for the limited right of exclusivity of the invention.

C. Trade Secrets Give Uneven Protection

By employing state trade secret law as a substitute for patenting, certain categories of inventions would receive privileged protection under that law. Thus devices could not be protected after they are put on the market, because inventions which by their nature cannot be put into commercial use without disclosure cannot be kept secret. Those that can be maintained secret, such as a proces, are eligible for trade secret protection. *Winston Research Corp.* v. *Minnesota Mining & Mfg. Co.*, 350 F.2d 134 (9th Cir. 1965).

It has been argued that the public is not adversely affected by secrecy because everyone is, after all, free to reinvent, and thereby to obtain the invention free

of any claim by the first inventor. Even if a second inventor comes along, he, to, is free to opt for secrecy. There is but little assurance that a patentable invention will be reinvented. By definition, such an invention is one that is not obvious to one skilled in the art, even if that person is fully conversant with all the pertinent prior art. 35 U.S.C. §103. Therefore, the possibility of reinvention is of significance only with respect to obvious (i.e., unpatentable) technology. By definition, with time, money, and effort such technology can be duplicated by anyone skilled in the art. 35 U.S.C. §103. It does not protect the public as far as patentable inventions are concerned because they are not obvious and hence not readily reinvented. The trade secret holder will gamble on the fact that the invention is not likely to fall into the public domain. An invention not discernible from the product, such as a process lends itself to trade secret protection, as was attempted in the instant matter. While a limited range of matter is appropriate for trade secret licensing, within that range trade secrets are cheaper to obtain and may have distinct licensing advantages in comparison to patents. Milgrim, *Trade Secret Protection and Licensing—A True Alternative*, 4 *Patent Law Review*, 375, 391 (1972).

III. THERE IS JUSTIFICATION UNDER CERTAIN CONDITIONS OF STATE INTRUSION INTO FEDERAL POLICY

A. A Trade Secret Holder May Obtain Damages For Unfair Competition

Even in the absence of trade secret protection, the businessman is not without protection for unfair competition. The leading case on trade secret law, *E. I. duPont de Nemours and Co.* v. *Masland*, 244 U.S. 100, 37 S.Ct. 575, 61 L.Ed. 1016 (1917), recognized the dichotomy between protecting the trade secret as a prop-

erty right, in conflict with the patent statutes, and protecting a confidence. The court said that, in a trade secret case, the starting point is not the property, but the confidential relations involved. This philosophy has been recognized up to the present time, when the 7th Circuit remarked that a trade secret, unlike a patent or copyright, has no proprietary dimension. A suit to redress theft of a trade secret is grounded in tort, with the act of theft comprising the misfeasance against which the law protects. *Northern Petrochemical Co.* v. *Tomlinson*, —— F.2d ——, 179 USPQ 386, 7th Cir. (August 28, 1973).

Among the well-established remedies for torts resulting from inducing breach of confidence with regard to trade secrets, even if the trade secret per se is not protectible, are compensatory damages for breach of express or implied in fact contract, compensatory damages for inducing breach of contract, punitive damages for inducing breach of contract, and damages for conspiracy and deceit. Oppenheim, *Unfair Trade Practices*, 2nd ed., West Publishing Co., St. Paul, Minn., 1965, p. 261.

In the case in which a wrongdoer acquires a secret from an employee who has himself acquired it lawfully, the wrong consists in inducing the employee to break a specific contract or to be disloyal to a confidence reposed in him. In either instance it is a species of tort, recognized for over a century, of inducing an obligor to default upon an obligation.

When an employee who stands in a relationship of trust and confidence to his employer steals an invention, there has been an unjust enrichment of the employee or of the person to whom the employee imparts the confidential information. The only type of protection that can be given for trade secrets that is not

preempted by the federal patent statutes is in the realm of unfair competition, i.e., by breach of contract not to reveal, or abuse of confidence, or impropriety in obtaining the secret. *Cataphote Corp.* v. *Hudson*, 422 F.2d 1290, 165 USPQ 41, 5th Cir. (1970).

Any state law affording further protection, e.g., to enjoin those who obtain the secret by unfair means from using the secret information, has been preempted by the federal patent laws. A trade secret can thus only be protected by being kept secret. The protection of the owner of the trade secret is based on equity—the secrets obtained by the wrongful means are not protected.

B. States May Still Protect Inventors Against Commercial Immorality

The Restatement of Torts lists protection of commercial morality as the sole basis of trade secret protection under the law of unfair competition; inter alia:

Restatement of Torts (1938) §*757*, Comment (a) which states as follows:

. . ."It is employment of improper means to procure the trade secret, rather than the mere copying or use, which is the basis of the liability . . .".

It might be argued that such protection stimulates the development of technology by preventing its misappropriation. With respect to patentable inventions, this argument has little cogency. There is no reason for believing that potentially secret inventions need additional incentives to insure their creation and commercialization beyond those provided by the patent system.

The states have already amply provided laws to protect inventors against commercial immorality. Such

laws proscribe a wide range of immoral conduct. They prohibit outright theft and industrial espionage. In this fashion trade secrets found in documents or other physical objects are protected against forceful physical takings through breaking into a plant to steal them, or from wrongful copying, use, or sale of documents by one having access to them. *Restatement of Torts* (1938) §757. Under general federal and state criminal statutes, such conduct may be criminal as well as illegal under the law of unfair competition. Milgrim, *Trade Secrets*, Matthew Bender, New York (1967), §1.10.

IV. TRADE SECRETS, THE PATENT SYSTEM AND SMALL BUSINESS

Small business would be the last to deny that they do not harbor intellectual property which may be called trade secrets. However, small business would be the first to admit that when it comes to that species of intellectual property termed patentable inventions, they are highly dependent on that form of protection when an invention is commercialized. The large business's ability to reinvent and to employ economic clout is awesome and on both counts is frequently successful.

A loss of a trade secret to a small business enterprise is much more devastating to it than to a large business. First of all, the trade secret loss may lead to a complete demise of the business. Secondly, the pursuit of litigation is not only expensive but often meaningless as the practice of the trade secret may be already widespread. Small business' counter move is to obtain patent protection.

Large business through the numerous *amicus curiae* briefs filed on behalf of the petitioners have stated a

belief in the need for their purposes of trade secrets. Yet, when small business approaches large business with an idea or invention, large business demands that such idea or invention will be reviewed if the submission is made on a non-confidential basis. Small business can and must rely on its patent position and does so rely.

CONCLUSION

As Congress has enacted the patent laws in accordance with its constitutional authority, the Supremacy Clause of the Constitution requires that no state has a right to authorize any kind of monopoly on what is claimed to be a new invention, except when a patent has been obtained from the Patent Office under the exacting standards of the patent laws. One who makes a discovery may, of course, keep it secret if he wishes, but private arrangements under which self-styled "inventors" do not keep their discoveries secret, but rather disclose them in return for contractual payments, run counter to the plan of our patent laws, which tightly regulate the kinds of inventions that may be protected and the manner in which they may be protected. The national policy expressed in the patent laws, favoring free competition and narrowly limiting monopoly, cannot be frustrated by private agreements among individuals, with or without the approval of the courts. *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969).

This Court now has an opportunity to decide what it reserved for future decision in *Lear* v. *Adkins*, namely, whether the courts should protect the monopolies resulting from court-enforced trade secrets as well as the limited exclusivities granted to patentees in exchange for full disclosure of their inventions.

This case presents this Court with the occasion for bringing the *Sears* and *Lear* series of cases to their logical conclusion, i.e., that state trade secret law for otherwise patentable inventions is preempted by federal patent law.

Finally, NPC and NSB would recommend a decision essentially sustaining the 6th Circuit Court of Appeals with the following language being considered:

Under the Congressionally enacted patent laws the invention per se is protected. Under state trade secret laws the invention or idea may not be protected per se. The theft of an invention of a patentable nature incurs a tort indentifiable as unfair competition or the ignoring of a confidential relationship is grounded in a breach of contract. Both species give rise to a chose in action which may provide monetary damages but should not include enjoinment of the use of the idea or invention itself as this would indeed render protection to the idea or invention per se.

Respectfully submitted

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October 18, 1973

Barry L. Springel, Esq.
Jones, Day, Cockley & Reavis
1750 Union Commerce Building
Cleveland, Ohio 44115

Re: Kewanee Oil Co. v. Bicron Corp. et al

Dear Mr. Springel:

In accordance with our telephone conversation of October 18, 1973, I am requesting your permission to file a brief *amicus curiae* in the above-identified case on behalf of the National Patent Council

The National Patent Council supports the affirmance of the decision of the Court of Appeals for the Sixth Circuit.

Very truly yours,

/s/ ANNE M. KORNBAU
Anne M. Kornbau

AMK/sm

Petitioner hereby consents to the filing of a brief *amicus curiae* in Kewanee Oil Co. v. Bicron Corp. et al No. 73-187.

/s/ BARRY L. SPRINGEL
Barry L. Springel
Counsel for Petitioner

NATIONAL PATENT COUNCIL
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October 18, 1973

Wm. C. McCoy, Jr., Esq.
Bosworth, Sessions & McCoy
625 National City Bank Building
Cleveland, Ohio 44114

Re: Kewanee Oil Co. v. Bicron Corp. et al

Dear Mr. McCoy:

In accordance with our telephone conversation of October 18, 1973, I am requesting your permission to file a brief *amicus curiae* in the above-identified case on behalf of the National Patent Council.

The National Patent Council supports the position of Bicron Corp. and supports affirmance of the decision of the Court of Appeals for the Sixth Circuit.

Very truly yours,

/s/ ANNE
Anne M. Kornbau

AMK/sm

Respondent hereby consents to the filing of a brief *amicus curiae* in Kewanee Oil Co. v. Bicron Corp. et al No. 73-187.

/s/ WM. C. MCCOY, JR.
Wm. C. McCoy, Jr.
Counsel for Respondent

SUPREME COURT, U. S.

Supreme Court of the United States

October Term, 1973

No. 73-187

KEWANEE OIL COMPANY,
Petitioner,

vs.

BICRON CORPORATION, *et al.*,
Respondents.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

BRIEF FOR RESPONDENTS

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Supreme Court of the United States

October Term, 1973

No. 73-187

KEWANEE OIL COMPANY,
Petitioner,

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BICRON CORPORATION, *et al.*,
Respondents.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

BRIEF FOR THE RESPONDENTS

PRELIMINARY STATEMENT

This brief is submitted on behalf of the named respondents in reply to petitioner's brief. Respondents have not attempted to make separate replies to the sixteen amici briefs. Respondents have made occasional reference to some of those briefs and have dealt directly or by implication with most of the points raised in them. Our failure to reply to an amicus argument is not intended to concede it.

INTERESTS OF RESPONDENTS

It is appropriate, although perhaps not customary, to set forth the interests of the respondents in this case.

The individual respondents are former employees of Kewanee or its predecessor Harshaw who pooled their limited resources to found Bicron. Even though the Court of Appeals indicated otherwise (Pet. App. 3), respondents have not breached any fiduciary duty nor have they done anything wrong (App. 66, Fdg. 46; App. 84, Fdg. 109 Dec. 11, 1970 Tr. 50).

Before they formed Bicron, they justified in the public literature each step that would be required in going into the scintillation detector field (App. 77, Fdg. 73). They were sued and without notice put under a temporary restraining order which forced them to cease operations. Bicron was closed down from April 17, 1970 until May 28, 1970. Bicron resumed operations at its own risk on May 28, 1970, which was the date the trial[2] ended (Tr. 1422, 1423 & 1429). Not until May 25, 1970, three days before the end of the trial, were they advised of the trade secrets which they were not supposed to use or disclose.

Their first effort to grow a crystal failed (App. 89, Con. 6). They were put under the "Order for Permanent Injunction" because the District Court concluded that Bicron's purification procedures would not work and that in order to grow sodium iodide thallium activated crystal successfully, they "must, of necessity, supplement the Richert formula with plaintiff's trade secrets" (App. 89, Con. 6), notwithstanding (a) the admission of the vice-president

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[1] The Court of Appeals sustained the findings of fact of the District Court (Pet. App. 5).

[2] The trial started out as a hearing on whether or not Kewanee was entitled to a preliminary injunction. At the end of the trial, however, both parties agreed that the case should be submitted on the ultimate issue, i.e., whether or not Kewanee was entitled to a permaneent injunction (Tr. 1425 & 1429).

and general manager of Harshaw's crystal-growing operations that a person could follow the purification procedures of Harshaw's two expired purification patents and have "a commercial product" (App. 56, Fdg. 14), and (b) the finding that Harshaw had failed to establish that any of the processes, procedures and manufacturing techniques for the purification of sodium iodide were trade secrets (App. 82, Fdg. 94).

The District Court not only issued the permanent injunction here in question but, at Kewanee's insistence and on the theory it should "preserve the status quo", issued an "Order for Injunction Pending Appeal" (App. 97) which restrained Bicron, during the pendency of the appeal, from using those of Harshaw's purported trade secrets which had been found to be in the public domain.

The immediate interest of respondents is to sustain the decision of the Court of Appeals. In addition, respondents seek to prevent a recurrence of their own experiences and to strike a fairer balance, procedurally and substantively, between the interests of all persons involved in the laws of industrial property.

COUNTERSTATEMENT OF QUESTION PRESENTED

The injunctive relief granted by the District Court was "permanent", as indicated in its title, and not "limited" as suggested by petitioner. The Court of Appeals held that ". . . the Trade Secret Laws of the State of Ohio may not afford to the plaintiff in this case protection which the plaintiff could not obtain under the Patent Laws" (Pet. App. 25), meaning that no one could be permanently enjoined under trade secret law from practicing what was a prior public use under the patent statutes.

Respondents submit that, in the context of this case, the question should be:

> "Whether, without being in conflict with the patent statutes, the trade secret laws of the State of Ohio can provide permanent injunctive protection to an employer against former employees with respect to processes and equipment which that employer has used for more than a year and for which that employer could not have obtained any federal patent protection."

COUNTERSTATEMENT OF THE CASE

The processes, methods and techniques for the manufacture of sodium iodide thallium activated scintillation crystals are by no means the exclusive development of Kewanee.

Sodium iodide thallium activated crystals were invented by Professor Robert Hofstadter of Princeton University. He obtained a patent on them, which has expired (Def. Ex. E, Tr. 301, 1119). The furnaces for growing such crystals were invented by Professor Donald Stockbarger of the Massachusetts Institute of Technology, were described in published articles, and were patented by him (Pl. Ex. 40, Tr. 264, 266, Def. Ex. R-7, Tr. 958, 1194). The Stockbarger patent has expired. Harshaw had two patents on purifying the sodium iodide for use in the manufacture of these crystals, and those patents have now expired (Pl. Ex. 38 & 39, Tr. 260, 263).

The United States Atomic Energy Commission paid Harshaw many hundreds of thousands of dollars to work out the commercial development of scintillation crystals (Def. Ex. Z, Tr. 1277). This work was written up and published (App. 53, Fdg. 6).

There were a number of places where people were doing work and writing papers on scintillation crystals including the Argonne National Laboratory and the Oak Ridge National Laboratory (App. 62, Fdg. 40). While three United States companies, other than Harshaw, grow sodium iodide thallium activated crystals, Harshaw is the largest company, is the only one that grew 17 inch crystals, and is the forerunner in the field (App. 100-101, Fdg. 6). Harshaw had no knowledge of the processes and procedures used by its competitors (Tr. 1407), nor was there any other proof of the processes and procedures being used by others in the field (App. 83, Fdg. 103). Harshaw finally acknowledged that its trade secrets applied to all sizes of crystals, including those sizes grown by its competitors, not just to the 17 inch crystals (Tr. 1410).

Harshaw did not take the necessary precautions to protect its trade secrets. The District Court chronicled numerous instances of lack of security but concluded that the breaches had not been sufficient to place the claimed trade secrets in the public domain (App. 83-85, Fdgs. 104-108).

Harshaw's policy was to give *all* employees access to the Elyria plant, where the crystals were grown, in order ". . . to bring these people together . . . as a form of teamwork. They must know about the crystal's history, . . . they have been free to go to the Elyria plant and move about that plant. We obviously trust these people and see no reason to inhibit their movement about the plant." (Tr. 251).

Individual defendant Hamner was never employed by Harshaw and did not have a written agreement with it. He was employed by Hamner Electronics Company which he had founded and sold out to Harshaw. Hamner Electronics was a wholly-owned subsidiary of Harshaw. Ham-

ner had a ten-year employment contract with Hamner Electronics (Pl. Ex. 10) which did not expire until 1974. Harshaw voided that contract by dissolving Hamner Electronics (App. 69, Fdgs. 49 & 50).

Everything Bicron did was its own work product. There is nothing in this record to suggest that any of the individual defendants took with them any Harshaw blueprints or other documents which embodied any of the purported trade secrets of Harshaw. In addition to Richert, whom Bicron consulted for the purposes of preparing its purification procedure, Bicron consulted an independent engineering firm to design its growth furnace and another independent contractor to design the heating elements (App. 56, Fdgs. 17 & 18). The Bicron furnace did not look like the Harshaw furnaces (App. 56, Fdg. 19).

No written description of the Harshaw growing procedures, no blueprints of its furnaces, and no photographs of existing equipment were introduced into evidence by Harshaw to support its trade secret list, plaintiff's exhibit 56 (App. 59-60, Fdg. 39). The only area in which any documents were introduced to establish Harshaw's purported trade secrets was in purification (Pl. Ex. 46, 47 & 48), and there Harshaw misrepresented the "company confidential" markings thereon (Tr. 577, 628).

In instituting this litigation, Kewanee's clear purpose was to maintain its monopoly and eliminate Bicron as a competitor. In its complaint, Kewanee sought a permanent injunction to prevent the individual defendants from remaining in the employ of Bicron and Bicron from employing them in product areas which could result in the disclosure or use of its purported trade secrets (App. 23 & 24). Even though the November 24, 1970 findings of fact and conclusions of law had been sealed at Kewanee's request, Kewanee planted newspaper articles and generally

circulated throughout the trade announcements that it had won the litigation and that individual respondents could not work for Bicron (Def. Ex. BB, CC, DD, EE, Tr. Dec. 11, 1970). Kewanee justified its actions by language taken from paragraph A(2) of the "Order for Permanent Injunction", which interpretation the district court disclaimed (Dec. 11, 1970 Tr. 52-55).

The federal preemption issue was fairly raised in the district court.[3]

The Court of Appeals had the case under advisement for a long time and it was argued twice, first on October 20, 1971 and then on April 10, 1972.

ARGUMENT

I. We Start with Goldstein: Bicron Takes No Position On Article I, Section 8, Cl. 8.

The obvious starting point for consideration of the question here presented is *Goldstein et al. v. California*, 412 U.S. 546 (1973), which was handed down a little over a month after the decision of the Sixth Circuit Court of Appeals.

In *Goldstein*, the Court first addressed itself to the question of whether or not exclusive power over copyrights must be inferred from Article I, Section 8, cl. 8 of the Constitution. The answer was in the negative. The Court recognized that the interests of a state which grants copyright protection may be adversely affected by other states which do not grant copyright protection but concluded that the conflict was neither so inevitable nor so

[3] See "Reply Memorandum to Plaintiff's 'Statement of Reasons in Support of Preliminary Injunction' filed in the district court on May 25, 1970, pages 3-5 and "Defendants' Proposed Conclusions of Law" filed July 17, 1970, page 1, which makes reference to that reply memorandum.

severe as to compel the conclusion that state power had been relinquished to the exclusive jurisdiction of Congress. The Court examined the concurrent exercise of the power to grant copyrights by Congress and the States and determined that a conflict would develop if a state attempted to protect that which Congress intended to be free from restraint or attempted to free from restraint that which Congress intended to protect. Where Congress determined that neither federal protection nor freedom from restraint was required by the national interest, then the state could act and there would be no conflict, which was found to be the situation in *Goldstein*.

The Court of Appeals held that the permanent injunction issued by the District Court was void under the Supremacy Clause (Article VI, cl. 2) and cannot be said to have addressed itself to the exclusive power question. Neither will Bicron.

Bicron suggests that the differences between the nature of patents and copyrights makes it difficult to find an area which Congress has neither attempted to protect nor attempted to free from restraint so that a state can act without conflict. Bicron discusses those differences infra in the context of the Supremacy Clause. Bicron notes that there is no expressed intent of Congress to reserve powers in the States with respect to patents and trade secrets as there was with copyrights.[4]

Bicron believes that the arguments in favor of Supremacy Clause preemption are compelling and does not wish to become entangled in the question of whether or not exclusive power over patents and trade secrets must be inferred from Article I, Section 8, cl. 8.

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[4] 17 U.S.C. 2

II. There Is a Supremacy Clause Conflict Per the Tests of Goldstein.

Following *Goldstein*, the next question is whether the perpetual injunction granted by the District Court "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress" *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941) and is, therefore, void under the Supremacy Clause (Article VI, cl. 2) as found by the Court of Appeals.

A. In *Goldstein*, the Court found clear Congressional intent *not* to include mechanical recordings within the scope of the copyright statutes and consistent rulings of the Registrar of Copyrights that mechanical recordings were not entitled to protection under the copyright statutes. In the case at bar, there is clear Congressional intent[5] to include the subject matter of the permanent injunction within the scope of the patent statutes. Kewanee admitted that these trade secrets were patentable subject matter (Pet. App. 7).[6]

The first significant distinction between this case and *Goldstein*, therefore, is that in the *Goldstein* situation Congress had stayed its hand entirely and had indicated that mechanical reproductions were outside of the scope of the Copyright statutes so California was at liberty to act, whereas in this case, Congress has included the trade secret subject matter in issue within the scope of the patent statutes.

---

[5] 35 U.S.C. 101

[6] In footnote 11, page 35 of its brief, Kewanee suggests that its admission went only to that one trade secret upon which it filed a patent application, obtained a notice of allowance, and then abandoned the application by not paying the final fee, choosing instead to maintain the information as a trade secret (Tr. 1265). Kewanee's admission went to all of its purported trade secrets because those trade secrets (Pl. Ex. 56) were all patentable subject matter as any examination of them will disclose. The appeal was argued twice. Kewanee reaffirmed its admission in the course of the second argument.

B. The second significant distinction between this case and *Goldstein* is in the respective natures of patents and copyrights. The differences between patents and copyrights are set out in *Baker v. Selden*, 101 U.S. 99, 102-103 (1880); *Mazer v. Stein*, 347 U.S. 201, 217-219 (1954) and *Alfred Bell & Co. v. Catalda Fine Arts*, 191 F.2d 99, 100-104 (2d Cir. 1951).

Copyrights protect specific writings, need not be original, are obtained by registration without examination, and have a term of twenty-eight years from the date of first publication, which may be renewed for another twenty-eight years.[7] Unlike copyrights, patents protect embodiments of ideas and concepts, must be original and beyond the skill in the art, must be a full disclosure of the idea sought to be protected[8], are obtained from the Patent Office only after examination, and have a term of seventeen years[9] after which they are dedicated to the public.[10] A copyright gives protection only to the expression of the idea—not the idea itself. *Mazer v. Stein*, 347 U.S. at 217. There are substantial differences between patents and copyrights. Patents have much broader scope and application, which this Court seemed to recognize in *Goldstein* when it said:

> ". . . The California statutory scheme evidences a legislative policy to prohibit 'tape' and 'record piracy,' conduct that may adversely affect the continued production of new recordings, a large industry in California. Accordingly, the State has, by statute, given to recordings the attributes of property. *No restraint has been placed on the use of an idea or concept; rather, petitioners and other individuals remain free*

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[7] 17 U.S.C. 24

[8] 35 U.S.C. 112

[9] 35 U.S.C. 152

[10] *Scott Paper Co. v. Marcalus Manufacturing Co. Inc.*, 326 U.S. 247, 255 (1945), (Pet. App. 16 & 17).

> *to record the same compositions in precisely the same manner and with the same personnel as appeared on the original recording.*" 412 U.S. ___ ___, 1973 (emphasis supplied)

Unlike the situation in *Goldstein*, the permanent injunction here places direct restraints on the use of ideas and concepts.

C. Still following *Goldstein*, the remaining inquiry would seem to be into the purposes and objectives of Congress in passing the patent act and whether the permanent injunction of the District Court interferes with those purposes and objectives.

The introduction to the 1966 "Report of the President's Commission on the Patent System" justified the worth of the patent system as follows:

> "First, a patent system provides an incentive to invent by offering the possibility of reward to the inventor and to those who support him. This prospect encourages the expenditure of time and private risk capital in research and development efforts.
>
> Second, and complementary to the first, a patent system stimulates the investment of additional capital needed for the further development and marketing of the invention. In return, the patent owner is given the right, for a limited period, to exclude others from making, using, or selling the invented product or process.
>
> *Third, by affording protection, a patent system encourages early public disclosure of technological information, some of which might otherwise be kept secret.* Early disclosure reduces the likelihood of duplication of effort by others and provides a basis for further advances in the technology involved.
>
> Fourth, a patent system promotes the beneficial exchange of products, services, and technological information across national boundaries by providing

protection for industrial property of foreign nations." (emphasis supplied)

The 1965 report of the Patent, Trademark and Copyright Subcommittee of the Judiciary Committee of the United States Senate said: [11]

"Another major objective which industry believes should be accomplished by the patent system is to advance the cross-fertilization of ideas by encouraging publication of inventions rather than their suppression as trade secrets."

In Study No. 1[12] prepared by Dr. Vannevar Bush in 1956 at the request of the Subcommittee on Patents, Trademarks and Copyrights of the Judiciary Committee of the United States Senate, Dr. Bush set forth the three great objectives of the patent system in these words:

"First, it aims to stimulate both invention and the assiduous search for new applications of knowledge, which is the basis of invention. It does this by placing the inventor in a position to secure a reward.

Second, it seeks to create conditions whereby the venture of funds to finance the hazardous introduction into public use of new devices or processes will be warranted. This is done by protecting the industrial pioneer for a limited time against the uncontrolled competition of those who have not taken the initial financial risk.

Third, it aims to prevent the creation of an industry permeated by the intense secrecy with regard to its processes which characterized the medieval guilds and which can only retard the realization by the public of the benefits of scientific progress. This it does by extending a temporary monopoly to those

[11] JOURNAL OF THE PATENT OFFICE SOCIETY, May 1965, Vol. XLVII, No. 5, p. 314.

[12] "Proposals for Improving the Patent System"— Study of the Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, United States Senate, 1956, p. 1.

> *who, in keeping with the American idea of openness and frankness, will make a full disclosure of their new ideas so that they may be utilized to the full by those skilled in a particular art.*" (emphasis supplied)

Secrecy works against the patent system. In Study No. 2[13] prepared for the above same subcommittee by George E. Frost, Esq., he said:

> ". . . , secrecy works against the competition stimulated by the patent system. Apart from the competitive aspect, secrecy is undesirable because there is a public value in having as much technical knowledge spread upon the public record as possible."[14]

The briefs of the amici say very little about the patent system and the benefits of the free flow of technological information. They do indicate such reliance on state trade secret protection as to have an adverse effect on the purposes of the patent system.

D. The enforcement of trade secret laws is not uniform from state to state. In some states, the courts grant a permanent injunction, as did the District Court here, and in some states they grant a "reverse engineering" or "head start" injunction, as in Illinois and Nebraska.[15]

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[13] "The Patent System and the Modern Economy"— Study of the Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, United States Senate, 1957, p. 4, footnote 5.

[14] Also see Frost, *Patent Rights and the Stimulation of Technical Change*, published in PATENTS AND PROGRESS, ed. by Anderson, Terpstra, and Shapiro, p. 61, 67-68 (1965), where he said:

> "A second important aspect of the patent system is that it encourages disclosure of technical advances and discourages secrecy. To the extent scientific information is kept secret, there is a strong retarding factor in the advance of technology. The free flow of both basic and applied scientific knowledge is absolutely essential to the most rapid rate of progress and maximum utilization of our scientific resources."

[15] *Northern Petrochemical Company v. Tomlinson et al.*, 179 USPQ 386 (7th Cir. 1973); *Hampton v. Blair Manufacturing Company* 374 F.2d 969 (8th Cir. 1967).

The sodium iodide thallium activated crystals which are the subject matter of the permanent injunction are used in the detection of uranium ore, in the detection of malignant tumors in medicine, in the location of oil, and in other uses involving the detection of gamma ray radiation. It is difficult to find a subject matter with more currently significant areas of interest to the national economy.

It cannot be said of this subject matter, as was said in *Goldstein*, that it is of "purely local importance" or that there is not a need for uniformity of laws from state to state.

III. Public Policy Is the Controlling Consideration, Not Private Right And Wrong.

Bicron need not remind this Court that it is primarily concerned with public policy. One of the most difficult aspects of this case and of previous intellectual property cases is to strike the balance between private wrong and public good.

In the *Sears* and *Compco* cases[16] the defendants were copiers who competed "unfairly" with the plaintiffs. In *Goldstein* the defendants were "tape pirates" who capitalized on the talents of others. In *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), the licensee was trying to avoid a private contractual obligation not to contest the validity of plaintiff's patent. In *Scott Paper Co. v. Marcalus Mfg.*, 326 U.S. 249 (1945), the defendant assigned all of his patent rights to plaintiff and then proceeded to infringe them on the grounds that such was justified by the prior art.

In this case, the individual respondents are charged to have breached a confidential relationship and used the

[16] *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

information obtained during their employment at Harshaw for the benefit of Bicron.[17]

The touchstone here, as in each of the subject cases, is not private right or wrong but rather what is in the public interest and, more particularly, the interests of the patent system and the strong federal policy favoring the full and free use of ideas which do not merit patent protection. *Lear*, 395 U.S. 656.

IV. There Are Direct Conflicts Between the Patent Statutes and the Permanent Injunction of the District Court.

The "Order for Permanent Injunction" (App. 92) of the District Court enjoins the individual respondents and Bicron from "using and/or communicating or divulging" approximately twenty designated trade secrets. It provides, in paragraph D, that Bicron et al.

> "shall not be restrained by this injunction from using any trade secret of plaintiff after it has been released to the public by plaintiff, such as by the issuance of a patent, or has otherwise become generally available to the public or other members of the industry or is obtained by defendants from sources having the legal right to convey such information."

A. For practical purposes, the injunction will continue until such time as Kewanee chooses to make one or more of its purported trade secrets public, a most unlikely event. There is no time limitation.

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[17] Bicron and the individual respondents again emphatically deny that they have done anything wrong or improper and refer this court to the findings of fact of the District Court Nos. 46 and 109 (App. 66 & 85).

The term of any patent injunction would be for the remaining life of the patent, most likely something substantially less than seventeen years.

B. The purported trade secrets are vaguely defined [18] in terms which do not meet the requirements of the patent statutes.[19] Because of this lack of specificity with respect to trade secrets, a trade secret injunction is more burdensome and oppressive than a patent injunction.[20]

C. The most direct and irreconcilable conflict arises from the fact that all of Kewanee's purported trade secrets had been in public use for more than a year and could not have been the subject of any patents, but nevertheless were protected by the permanent injunction of the District Court. Kewanee obtained permanent injunctive relief via state trade secret law which it could not have otbained via the patent statutes.

V. Enjoining Bicron Is the Equivalent of a Patent Monopoly.

Kewanee argues (Pet. Br. 26) that the permanent injunction of the District Court was not the equivalent of a patent monopoly because it only enjoined Bicron and did not convey any right to enjoin anyone else. There were

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[18] For example, trade secrets 3(d) and 4(f), Pl. Ex. 56

[19] 35 U.S.C. 112

[20] Kane, *Injunctive Relief Under Trade Secret Law: The Fatal Flaw*, JOURNAL OF THE PATENT OFFICE SOCIETY, Dec. 1971, Vol. 53, No. 12, p. 797.

E. W. Bliss v. Struthers-Dunn, Inc., 408 F.2d 1108 (8th Cir. 1969).

It should also be noted that preliminary injunctions are granted in trade secret cases much more readily than in patent cases. See *Carter-Wallace Inc. v. David-Edwards Pharmacal Corp.*, 443 F.2d 867, 872 (2d Cir. 1971), and MILGRIM, TRADE SECRETS, Section 7.08(1).

only three competitors and Bicron was the fourth. The permanent injunction enjoined one of the few persons that counted, namely Bicron. If Kewanee would have had a patent monopoly, Bicron is the only person it would have sued.

Some commentators now say that secrecy protection is more advantageous than patent protection.[21] Kewanee itself interpreted the injunction as a great victory which prevented the individual respondents from working for Bicron.[22]

The injunctive rights given by the state trade secret law in this case were the equivalent of those given by the patent statutes. Whatever practical differences there might have been are not enough to eliminate a substantial conflict between the patent statutes and the state trade secret law.

VI. The Court of Appeals Was Not Misled by Any Play on the Term "Public Use."

Kewanee argues (Pet. Br. 28) that the Court equated "public use" with "public domain" and thereby determined that there was a conflict between the patent statutes and the state trade secret law.

The conflict which the Court of Appeals found was that state trade secret law gave Kewanee protection which it could not have obtained under the patent statutes (Pet. App. 24-25).

The Court of Appeals was not misled by any play on the words "public domain" and "public use." In phrasing the issue before it, the Court did not use either of those words (Pet. App. 7 & 8). The only instance in which

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[21] Adelman, *Secrecy and Patenting: Some Proposals for Resolving the Conflict*, 1973 AMERICAN PATENT LAW ASSOCIATION QUARTERLY JOURNAL, Vol. 1, No. 4, p. 298 & footnote 15.

[22] Dec 11, 1970 Tr. 52 Def. Ex BB, CC, DD & EE.

the Court used the words "public domain" was in characterizing the holding of this Court in *Lear* (Pet. App. 21).

Pursuing the same line, Kewanee argues (Pet. Br. 32) that *Sears, Compco* and *Lear* support the conclusion that the patent statutes preclude protection under state law only of things which as a matter of fact are known or readily available to the public.

What *Sears, Compco* and *Lear* hold is that all ideas must be considered to be dedicated to the common good unless they are protected by a valid patent. At the beginning of *Lear*, Mr. Justice Harlan characterized the thrust of these decisions as follows:

> "We granted certiorari in the present case, 391 U.S. 912, to reconsider the validity of the Hazeltine rule in the light of our recent decisions emphasizing *the strong federal policy favoring free competition in ideas which do not merit patent protection.*" 395 U.S. at 656 (emphasis supplied).

Kewanee's attempt to create a middle ground between ideas in general circulation and ideas which are not protected by a valid patent, its so-called "secret public use", is a diversion from the issue before this Court and in no way avoids the clear conflict presented by the facts of this case. There is no middle ground.

VII. Decisions of Other Circuit Courts.

Kewanee argues (Pet. Br. 36) that all circuits which have considered the question other than the Sixth Circuit agree that there is no preemption.

The only case directly in point is *Dekar Industries Inc. v. Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), wherein the court devoted only one sentence to the conflict question.

In *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971), the preemption issue was not raised by the parties but instead was injected into the case by the district court sua sponte. On appeal, even though the prevailing party declined to argue the issue, the Second Circuit Court of Appeals felt constrained to pass upon it. The controlling issues were contractual involving a know-how license and payment for past services, not an injunction.

Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964), was decided right after the *Sears-Compco* cases and was distinguished from them on the basis of a breach of a confidential relationship.

Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163 (5th Cir. 1969), was a contract case in which the federal preemption statements are pure dicta.

For obvious reasons, Kewanee has keyed its argument into the rationale of *Painton v. Bourns,* which involved a different fact situation and did not concern the conflict between a permanent injunction and the patent statutes. These arguments have been dealt with elsewhere in this argument, particularly sections IIC, VI and VIII. *Painton v. Bourns* was decided before *Goldstein,* in 1971.

VIII. The Differences in the Interests Being Protected Do Not Avoid the Conflict.

Kewanee argues (Pet. Br. 37) that the interests protected by Ohio law of trade secrets are different from and do not conflict with federal patent policy. It cites an example wherein an inventor discloses in confidence his new idea to a large corporation which did not previously know of it. The corporation refuses the idea but thereafter, in breach of its argeement with the inventor, puts the idea in public use for over a year before the inventor discovers

what has been done. Bicron does not contend that the inventor should be denied all legal relief under contract law. Bicron does contend that the inventor could not obtain any permanent injunctive relife.

Kewanee's example leads to an interesting observation, which is that the policy of most large corporations is to refuse to accept any disclosures from individual inventors except upon the condition that they waive their confidential disclosure rights and rely exclusively upon their rights under the patent statutes.[23] In other words, in the dealings between individual inventors and corporations,the corporations favor the federal preemption doctrine.

In any event, the differences between patents and trade secrets do not avoid the conflict in this case.

IX. There Is No Conflict With the Ohio Criminal Statute.

Kewanee refers (Pet. Br. 40) to the trade secret criminal statute of Ohio, O.R.C. §1331.51(C), which forbids conversion of "an article representing a trade secret" by anyone who obtained access to that article without the owner's consent. This statute forbids the trusted employee from stealing models, writings, blueprints,[24] and the like. It is a criminal statute of narrow scope. There is no conceivable conflict between this statute and the patent statutes. The decision of the Court of Appeals

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[23] MILGRIM, TRADE SECRETS, Section 8.03(3); AMERICAN MANAGEMENT ASSOCIATION BULLETIN 64, 1965 "Trade Secrets", p. 19.

Van Rensselaer v. General Motors Corporation, 324 F.2d 554 (6th Cir. 1963) *cert den.* 377 U.S. 959

[24] Blueprints and other writings can be protected by common law copyright. *Nucor Corporation v. Tennessee Forging Steel Service Inc.*, 476 F.2d 386 (8th Cir. 1973).

cannot be twisted into one which would render such state statutes void.

X. There Are No Prior Decisions Which Are Directly in Point Which Can Be Read Into the 1952 Patent Statute.

Kewanee argues (Pet. Br. 41) that decisions of this Court prior to the enactment of the 1952 Patent Code recognized that there could be peaceful coexistence between state trade secret law and the patent statutes and that such decisions must be read into the 1952 Patent Code.

In the first place, none of the decisions cited by Kewanee dealt squarely with the question now before this Court. The references to trade secrets were dicta in the context of other issues. Before any decision can be read into a statute, it should be one which is directly in point.

In the second place, times change. What seems to be happening now is a flight from the patent laws to reliance on state trade secret laws.

XI. The Statutes Do Not Conflict With the Sixth Circuit Rule Because They Are Concerned Principally With Disclosure, Not Use.

There is nothing in the statutes, treaties [25] and court rules cited by Kewanee (Pet. Br. 47) which reinforces its position or conflicts with the decision of the Court of Appeals.

To begin with, the term "trade secrets" as used in these statutes has much broader meaning and application than the same term when used in these proceedings. In the

[25] The language of the treaties is so broad and nebulous as to be meaningless for purposes of this argument.

statutes it means all sorts of proprietary business information within and without the scope of patentable subject matter. In these proceedings, insofar as the permanent injunction is concerned, the term "trade secrets" means patentable subject matter which has been in public use for more than a year.

The statutes are mostly criminal statutes which prohibit the disclosure by government employees of information furnished to them in the course of enforcing regulatory laws such as the securities laws or the air pollution laws. What they require is that when someone makes a disclosure to the federal government of various classes of confidential or proprietary information, the government has to honor the confidentiality of the disclosure.

The thrust of these statutes and of court rules is to protect trade secrets against *disclosure*.

The conflict found by the Court of Appeals is with respect to *use*.

When a patent owner obtains an injunction pursuant to the patent statutes, it prohibits the other party from making, using or selling the invention claimed in the patent, but there is never any injunction against disclosure because the invention has already been disclosed in the patent. The most that can be said of the statutes and court rules cited by Kewanee is that they recognized rights against the disclosure of trade secrets. There is no problem accommodating into a harmonious body of law the ruling of the Court of Appeals and the various statutes and court rules noted by Kewanee.

XII. The Decision of the Court of Appeals Should Be Given a Narrow Interpretation Consistent With Other Contemporaneous Decisions.

Kewanee argues (Pet. Br. 50) that a large volume of business transactions have been generated in reliance upon state trade secret laws and that, should this court affirm the Court of Appeals, agreements and valuable property rights will be voided.

This is the other side of Kewanee's persistent efforts to characterize the decision of the Court of Appeals in the broadest possible terms.

The question before the Court is whether the permanent injunction of the District Court conflicts with the patent statutes. This Court only has to answer that question. There is no record on the multi-faceted economic issues which Kewanee and the amici are seeking to inject into the case. Bicron cannot cope with such issues nor should it be expected to.

The concern of the amici briefs seems for the most part to be with respect to the licensing of technology, which they seek to characterize as trade secret licenses but which Bicron would more accurately characterize as technical service agreements. The Court of Appeals did not touch on these matters. In another decision, *Troxel Manufacturing Co. v. Schwinn Bicycle Co.*, 465 F.2d 1253 (6th Cir. 1972), it held a licensee to its contract and would not permit a refund for royalties paid under an invalid patent. In *United States v. Greenwald*, 479 F.2d 320 (6th Cir. 1973), the Court of Appeals held that trade secrets were "goods, wares or merchandise" within 18 U.S.C. 2314 of the federal criminal code.

The practice of the Sixth Circuit Court of Appeals is to circulate copies of all proposed opinions among all judges, not merely the members of the panel who heard

the case.[26] It must be assumed that the actions of the Court of Appeals are consistent. There is no reason to believe that it intended to nullify all technical service agreements. What the Sixth Circuit Court of Appeals did was to eliminate a direct conflict between state trade secret law and the patent statutes and thereby encourage the disclosure and public use of ideas.

XIII. The Patent System Favors Research And Development

Some of the amici contend that an affirmance of the decision of the Court of Appeals will take away the rewards and incentives for diligent and fruitful research and decrease the level of invention and innovation in this country.

George E. Frost, Esq., in Study No. 2, indicated that the patent system supported most of this activity, not any state trade secret system.[27] Dr. Vannevar Bush said that research scientists publish freely and deplore secrecy.[28] To illustrate the undesirability of secrecy, Dr. Bush used the history of obstetrical forceps, which were held secret and passed down from father to son while many women suffered unnecessarily.[29]

The objects of the American Chemical Society[30], as set forth in its charter, are:

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[26] PRACTITIONERS' HANDBOOK FOR APPEALS TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT, p. 44.

[27] Study No. 2, *supra*, p. 1-14.

[28] Study No. 1, *supra*, p. 2-3.

[29] Study No. 1, *supra*, p. 3. See also Rines, *Do We Need A Patent System*, JOURNAL OF THE PATENT OFFICE SOCIETY, Aug. 1969, Vol. 51, p. 525.

[30] The American Chemical Society filed an amicus curiae brief in support of Kewanee but then withdrew it.

"That the objects of the incorporation shall be to encourage in the broadest and most liberal manner the advancement of chemistry in all its branches; the promotion of research in chemical science and industry; the improvement of the qualifications and usefullness of chemists through high standards of professional ethics, education, and attainments; the increase and diffusion of chemical knowledge; and by its meetings, professional contacts, reports, papers, discussions, and publications, to promote scientific interests and inquiry, thereby fostering public welfare and education, aiding the development of our country's industries, and adding to the material prosperity and happiness of our people." P.L. 358, 75th Cong., 1st Sess. (1937).

The patent system favors research and development, not any state trade secret system.

The Court is not being asked to nullify the state trade secret law nor reward reprehensible business conduct. The Court is being asked to eliminate a direct conflict between the federal patent system and state trade secret law and to modify state trade secret law to the extent that it interferes with the purposes and objectives of the patent system.

CONCLUSION

The decision of the Sixth Circuit Court of Appeals promotes the Patent System and strikes a fairer balance between the interests of all involved in the law of industrial property. There is a direct conflict between the permanent injunctive relief granted to Kewanee by the District Court under Ohio law and the fact that it could not have obtained any relief under the patent statutes. The decision of the Sixth Circuit Court of Appeals should be affirmed.

Respectfully submitted,

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SUPREME COURT, U.S.
FILED
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MICHAEL RODAK, JR.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1978

No. 78-187

KEWANEE OIL COMPANY,
Petitioner,

v.

BICRON CORPORATION, *et al.*,
Respondents.

BRIEF AMICUS CURIAE OF SCM CORPORATION

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BRIEF AMICUS CURIAE

AUTHORITY TO FILE

This brief is filed on behalf of SCM Corporation under Rule 42(2) of this Court with the written consent of both parties, the originals of the consent letters being filed herewith.

OPINIONS BELOW

The opinion of the United States District Court for the Northern District of Ohio is not reported, though it is understood that its findings of fact and conclusions of law, with information as to the nature of the alleged trade secrets excised,[1] appears in the Appendix at 51

[1] Based upon correspondence with petitioner's counsel, it is further understood that the material contained in the Appendix constitutes the totality of the allegedly "secret" proceedings in the District Court which have been made available to any of the amici

et seq. The opinion of the Court of Appeals is reported at 478 F.2d 1074.

CONSTITUTIONAL AND STATUTORY PROVISIONS

The involved constitutional provisions are the Commerce and Patent clauses contained in Article 1, Section 8, clauses 3 and 8, the Supremacy clause contained in Article VI, clause 2, the Fifth, Ninth and Tenth Amendments and Sections 1 and 5 of the Fourteenth Amendment. In addition, the case involves the proper interpretation of 35 U.S.C. 101 and 102. These provisions are all reproduced *infra*, 1a to 3a.

QUESTION PRESENTED

The sole question properly raised by the record below is: May a state perpetually enjoin use, by one who has lawfully acquired it, of technical information within the subject matter scope of 35 U.S.C. 101 on which the right to a patent has been forfeited by failure to file a timely patent application and by commercial use for more than one year?

No other question, including the broader one suggested in the petition, was decided below or finds sufficient evidentiary support in the deliberations of the courts below to warrant entertainment by this Court in this case at this time.

INTEREST OF THE AMICUS

SCM is a worldwide diversified business enterprise engaged in a variety of research, development and manufacturing pursuits which include every aspect of the acquisition, development, protection and dissemination of technical information.

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appearing in this case before this Court including the United States Department of Justice.

SCM has a broad based interest in the outcome of this case which is essentially the same as that of many of petitioner's amici who are either corporations or associations comprising a plurality of corporate members.[2] While SCM does not subscribe to the arguments advanced by these parties or the conclusionary non-evidentiary "facts" which are alleged to show that the decision below, if affirmed, would discourage expenditure of money on research and development activities to the detriment of society, SCM does stand to be affected in precisely the same way by the outcome of the Court's decision in this case as any of these corporate and corporate-centered amici.

In addition to its broad interest, SCM has a particular interest in this case in that the central issue posed is closely related to, though different from, the central issue in SCM's own litigation against Mobil Oil Corporation pending in the District Court for the Northern District of Ohio.[3]

SUMMARY OF ARGUMENT

Trade secrets are often utilized to perpetually monopolize technical information, whether or not it meets the exacting criteria for validly patentable invention. Conventionally the monopoly is created by first requiring employees to sign agreements preserving as permanently "confidential" all of the proprietor's unidentified trade

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[2] These amici include at least Optical Coating Laboratories, Inc., Rohr Industries, Inc., Electronic Industries Association, R.J. Reynolds Industries, Inc., Southwire Company, Burroughs Corporation, The Budd Company, the Chamber of Commerce of the United States of America and the Manufacturing Chemists Association.

[3] Specifically, Civil Action C-73-751 filed July 18, 1973. Further details concerning the relationship of that litigation to this case are set out under the heading "Interest of the Amicus Curiae" at pages 1-4 of SCM's amicus brief opposing the grant of certiorari in this case, the cited portion of which is incorporated herein by reference.

secrets and then licensing competitors on a "confidential" basis in exchange for a running "use" royalty. The only attribute of patents lacking under such arrangements is a legally enforceable right to exclude independent discoverers of the "secret" from using it—and if the "secret" is widely licensed in the pertinent industry, there will be no need for that right because few, if any, interested persons will remain who are outside the "confidence". Meanwhile the public suffers because the safeguards which carefully limit the patent right to a statutorily authorized sphere are inapplicable to trade secrets.

The decision below holds that "trade secrets" in information responsive to the subject matter definition contained in 35 U.S.C. 101 are, under 35 U.S.C. 102(b), dedicated to the public if used commercially for more than one year, absent the timely filing of a patent application—and that in view of this public dedication an injunction may not issue to prevent use of the "secret" by a former employee who learned it lawfully in the course of his employment. The decision does not revoke the law of trade secrets nor interfere with criminal penalties for fraud, theft and the like. It does not contravene any existing treaties, statutes or rules, nor does it disrupt legitimate existing business relationships. Nor does it deal with conflicts between patents and trade secrets arising under other sections of the patent law, or conflicts with any aspect of antitrust law or the law of international commerce. Trade secret "property" in technology does not promote "investment" in research and development, which is stimulated mainly by competitive pressures and secondarily by direct subsidies—e.g. depreciation and other tax advantages.

There is no natural law or preconstitutional common law property right in technical information and property is not an inevitable or legally required result of the expenditure of time, money or labor.

The dedication policy of the patent system is based on common law which predates the Constitution, when commercial use was synonymous with making an invention public regardless of whether precise details of the invention were revealed by the commercially used or sold article, and on the paramount public interest protected by the Constitutional patent clause and the laws enacted thereunder. That policy has been consistently recognized and implemented in many decisions of this Court.

The federal patent law preempts state trade secret law as to subject matter within the scope of 35 U.S.C. 101 and inexorably subjects an alleged "secret" if used commercially for more than one year without the timely filing of a patent application, to the bar of 35 U.S.C. 102(b). Federal preemption by the patent laws is further required because patent policy must not compromise other constitutional objectives. In particular, patent policy affects interstate commerce and may not conflict with Congressional policy adopted pursuant to constitutionally exclusive federal power. Likewise, patent policy may not derogate the rights of all citizens under the Fifth and Fourteenth Amendments. Moreover, these latter rights are themselves paramount to and preemptive of state law policies favoring corporate financial interests and they *per se* preclude the permanent injunction petitioner seeks against respondents.

ARGUMENT

A. INTRODUCTION

The decision below enunciates no new or novel proposition of law, nor does it suggest that the whole gamut of state trade secret law is preempted by federal patent law. It simply holds that where the right to federal patent property in particular technical information has been deliberately forfeited, no state may, on the pretext of recognizing an adverse "natural" or contractual prop-

erty right, enjoin any person in lawful possession of that same information from utilizing it.

At the heart of the numerous amicus briefs favoring petitioner which the case has generated [4] is the fact that the decision below is a significant obstacle to an ever mounting campaign to circumvent, weaken, and ultimately destroy the exacting criteria for patentable invention contained in the federal patent laws as enacted pursuant to

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[4] Some fourteen amici have filed briefs in support of the petitioner. These amici include five individual corporations, i.e. Burroughs Corporation, R.J. Reynolds Industries, Southwire Co., The Budd Co., Rohr Industries, Inc., and Optical Coating Laboratory, Inc.; three trade associations composed mainly of corporations, to wit, the Chamber of Commerce of the United States, the Manufacturing Chemists Association, and Electronic Industries Association; and six groups wholly or partially comprised of and led by patent lawyer members, namely the American Bar Association, the New York Patent Law Association, the American Patent Law Association, the Bar Association of the District of Columbia, the Association for Advancement of Invention and Innovation and the Licensing Executives Society.

Most of these briefs are signed by one or more patent lawyers and many of the signatory patent lawyers have personally been active for some years in attempting to obtain a relaxation in the federal statutory criteria for patentable invention either by judicial fiat or through lobbying Congress for statutory changes. See, *e.g.*, the various amicus briefs filed by bar associations in the petitioner's behalf in *Graham* v. *John Deere Co.*, 383 U.S. 1 (1966), and the statements made on behalf of various bar associations at hearings on proposed patent legislation during the past seven years, exemplary of which are those made before the Subcommittee on Patents, Trademarks and Copyrights of the Committee on the Judiciary, United States Senate, 90th Cong., 1st Sess. (1967) concerning S. 2, S. 1042, S. 1377 and S. 1691 and 92nd Cong., 1st Sess. (1971), regarding S. 643, S. 1253, and S. 1255 held May 11, 12 and 13, 1971. Similar views were expressed on behalf of bar associations and in particular on behalf of the American Patent Law Association in a then proposed bill (now H.R. 11868) submitted at the soon-to-be published hearings of the same subcommittee held in September 1973 in regard to S. 1321 (93rd Cong., 1st Sess.).

The socio-economic arguments now advanced to support liberalized trade secret protection are the same ones which have been unsuccessfully advanced to induce judicial or legislative relaxation in the strict criteria for patentable invention. See *infra*, p. 47.

the Constitution.[5] This campaign embraces a plurality of modes of attack, only one of which is concerned with an enlarged "property" scope for trade secrets.[6]

The degree of enlargement in the scope of trade secret "property" rights today is evidenced to some extent by the facts of record concerning the confidentiality agreements which petitioner in this case imposed upon the various individual respondents.[7] According to Fact Finding 104 (App. 83) petitioner "regularly requires its employees to execute . . ." blanket confidentiality agreements which in no way adumbrate the scope of confidentiality the employer will claim if the employee wants to leave the company.[8]

Such agreements convey no flavor of good faith arm's-length bargaining between equals; rather there is an aura of duress or coercion, with the economically strong

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[5] For a detailed discussion of historical and constitutional considerations surrounding some of these criteria see "The Constitutional Standard of Invention—The Touchstone for Patent Reform", by Irons and Sears, written pursuant to invitation of and soon to be published in the University of Utah Law Review, and reproduced in its entirety *infra*, 4a to 50a.

[6] Some commentators and text-writers have urged strongly that trade secret protection is a viable alternative to patents. See *e.g.* the articles cited by the amicus New York Patent Law Association at p. 11 and Milgrim, "Trade Secrets", Matthew Bender & Co. (New York 1967; revised and supplemented yearly). The latter—a virtual polemic for "competition" between patents and trade secrets incident protection of technical information—was heavily relied on to support the decision in *Painton & Co.* v. *Bourns, Inc.*, 442 F.2d 216 (2 Cir. 1971) said by petitioner, its amici and the Sixth Circuit to be "in conflict" with the decision below.

[7] See for example fact findings 48, 52, 54, 57 and 62 (App. 67-74).

[8] It is not at all unusual for employees to be kept in ignorance that any technical information is claimed to be a trade secret until such time as the employee's resignation takes effect. Sometimes, if an employee knew in advance that particular information was deemed a "trade secret", he might prefer not to be encumbered with it—but employers rarely consider such matters.

employer imposing its will upon the economically far weaker technically trained employee. When the employer has successfully imposed "confidentiality agreements" upon all of its technically trained employees, then it has the option of declaring all internally developed unpatented and unpublished technical information to be "secret", thus effectively binding knowledgeable employees to that company for life by ensuring that they have no special skills marketable elsewhere.[9]

The briefs amicus of the Licensing Executives Society (pp. 19-25), Rohr Industries, Inc. (pp. 9-15) and Optical Coating Laboratories, Inc. (pp. 4-12) further give some indication of the wide-spread degree to which allegedly "secret" information is "confidentially" circulated through-

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[9] Amicus Electronic Industries Association suggests that affirmance of the decision below will "destroy employer-employee trust" (Br. 3-5) *inter alia* because *employees* will "have little incentive to innovate on behalf of their employer or to share their discoveries with their employer" (Br. 4) if the well-nigh medieval shackles of existing confidentiality agreements be so modified that unpatented and unpatentable technical information in public use or on sale for more than one year becomes *per se* nonconfidential. But history shows and psychology confirms that free men are better motivated to innovate and make discoveries than bondservants and the suggestion appears to be ill-conceived.

If anything, affirmance of the decision below will enhance *employee* trust, which is at a low ebb. See *e.g.* Chemical & Engineering News for October 15, 1973 (p. 4) reporting a lawsuit against E.I. duPont de Nemours & Co. for damages based on dismissal of a chemical engineer having 16 years service who wrote a book "critical of large chemical and petroleum corporations." The article points out *inter alia*:

> ". . . that in most states professional employees enjoy essentially no legal protection against arbitrary dismissal from their jobs. Most professional employees are not members of unions. Hence, they do not have the protection of a union contract. In many cases protection under federal equal employment opportunities legislation against discrimination on grounds, of sex, race, religion, and the like is not pertinent. And most employment contracts signed by scientific personnel on joining a corporation are largely concerned with protecting the corporation."

out industry as "property" under circumstances akin to those which attend patent licensing—i.e. in exchange for running royalty payments keyed in amount to the licensee's commercial use of them.

When trade secrets are protected as "property" and disclosed "confidentially" to all or most of the competitors in a field in exchange for running "use" royalties, the monopoly power of the trade secret "owner" is not significantly different from that of a legitimate patentee insofar as its exclusionary impact is concerned. In such cases, there is very little chance that the "secret" will be discovered independently and published,[10] notwithstanding the inconsistent arguments of petitioner and its amici since essentially all interested people are already within the penumbra of the "confidentiality", and few, if any, potential independent discoverers are left.

Moreover, in such cases, the trade secret "property owner" really enjoys a more favored position than a legitimate patentee. First of all, he is able to select the subject matter limits of his trade secret himself and is not bound by claim limitations imposed by the Patent Office as a condition of the grant. Secondly, he is able to select the term of his trade secret "property right" himself, just like petitioner in this case, and hence, is not limited to the seventeen years afforded by the patent laws.[11] Furthermore, he can select any "license" terms

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[10] It is of course "public" whether or not published because used in commerce. See Section D 1a, *infra*, p. 32. It is also "public" because known to all or most of those persons most intimately concerned with its details and as such, it becomes a part of the knowledge which goes to make up the ordinary level of skill in the art. See 35 U.S.C. 103 and *Graham* v. *John Deere Co.*, 383 U.S. 1 (1966).

[11] The Court below noted that "Counsel for Kewanee frankly stated in the course of the arguments before this Court that one of the principal purposes of maintaining the secrecy of inventions, including those here involved, as opposed to seeking patents under the Patent Laws, would be to extend the commercial monopoly of

he wishes since there is no law of "misuse" applicable to trade secrets, and hence, no need to fear that the trade secret may be rendered unenforceable by inequitable licensing conduct. Finally, there are no statutory and constitutional criteria for validity of trade secrets, and hence the risk of loss is slight.

In short, to be able to hold technical information "secret" while exploiting it just like a patent is to have your cake and eat it too. No wonder that petitioner and its amici are anxious to preserve this halcyon condition and remain free to extend its benefits still further at their own options.

It is readily apparent that the trade secret system as it is now progressing and as it would flourish in the event of a decision for the petitioner in this case, is a strong deterrent to "the Progress of Science and useful Arts" which the patent system, pursuant to constitutional mandate, *must* "promote". By fostering non-publication and controlled use of technical information, trade secret law effectively precludes the use of knowledge as a stimulant for the production of more knowledge, thus retarding the progress of society. As said by this Court in *Woodbridge* v. *United States*, 263 U.S. 50, 61 (1923) the trade secret owner "comes not within the policy or objects of

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the invention beyond the seventeen years granted by the Patent Laws."

While Kewanee seeks to repudiate this admission (P.Br. 35, n. 11) and argues (P.Br. 26-28) that the injunction granted by the district court was not "the common law equivalent of a patent monopoly", whatever that may mean, it does not deny that the injunction did afford a "monopoly", as indeed it cannot. The classic English definition of monopoly, enunciated by Sir. Edward Coke, *infra*, p. 17a, note 27 contemplated that a monopoly exists if "*any* person or persons . . . are sought to be restrained of any freedom or liberty that they had before or hindered in their lawful trade"—and respondents would *certainly* be restrained of the freedom to use all their knowledge and skill, and hindered in their lawful trade if the injunction were reinstated.

the Constitution or acts of Congress. He does not promote, and, if aided in his design, would impede, the progress of science and the useful arts. And with a very bad grace could he appeal for favor or protection to that society which, if he had not injured, he certainly had neither benefitted nor intended to benefit."

This trade secret system is not really "secret" at all, but rather a system of private monopoly wherein a group of conspirators all privy to the "secret" hold and use unpublished information within their own industry for their own mutual benefit. Because this tends to discourage competitive research, it also tends to "stabilize" each individual industry. It precludes cross-fertilization with knowledge available in other technical disciplines, to the ultimate detriment of the public. Realistically viewed, these systems are conspiracies in restraint of trade wherein each trade secret proprietor is able to "function as its own patent office and impose its own law upon its licensees." [12]

Ease of availability of "property" protection for trival technology, "trade secret" or otherwise, obviously discourages research and development [13] in more daring and

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[12] *Mercoid Corp.* v. *Mid Continent Investment Co.*, 320 U.S. 661, 667 (1944). To the same effect is the separate, partially concurring opinion of Mr. Justice Black joined by Mr. Chief Justice Warren and Mr. Justice Douglas in *Lear* v. *Adkins*, 395 U.S. 653, 677 (1969).

[13] As said in *Atlantic Works* v. *Brady*, 107 U.S. 192, 199-200 (1883)

> "To grant to a single party a monopoly of every slight advance made, except where the exercise of invention, somewhat above ordinary mechanical or engineering skill, is distinctly shown, is unjust in principle and injurious in its consequences."

Statistics published by the Bureau of National Affairs in its Patent, Trademark and Copyright Journal on September 13, 1973 show that West Germany and Japan—two countries whose research and development efficiency is reckoned to be very high at present—have much higher standards of invention than our

revolutionary technology, where the risk of not developing useful information is higher—a factor which undoubtedly has a significant bearing on the much talked about deterioration of United States research and development in recent years.[14]

B. IRRELEVANT ISSUES ADVANCED IN THIS COURT

Because the briefs of petitioner and its amici have advanced numerous "strawmen" issues not decided below or raised by the record in this case and not even relevant here, clarification is appropriate.

Pointedly, the decision below *did not destroy* trade secret law generally and did not even foreclose recognition of trade secrets in technical information. Because

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Patent Office does, with about 30% and 40%, respectively, of patent applications filed maturing into patents compared to a figure of 75-80% in this country.

When the deterrent effects of trade secret monopolies on routine subject matter are taken into account conjunctively with the similar effects of the many trivial patents daily issued, it is not at all surprising that the deterioration of United States research and development efforts is rapidly becoming a matter for serious concern.

[14] Some evidence of the stagnating condition of American industry may be found in the fact that revolutionary technology is not being industrially applied. An article appearing in the Wall Street Journal for November 27, 1973 headlined "Remember the Rolamite? History's 27th, and Newest 'Elementary Mechanism' Still Works, but It Hasn't Revolutionized Technology" states, *inter alia*:

> "In all of history, by one count, only 27 elementary mechanisms—like the lever, the pulley, the ball joint, the hinge and the clutch—have been invented. The 27th was the rolamite, the only one to appear in this century. Invented in 1967, it's a cheap, practically indestructible gadget that theoretically could replace the working parts of hundreds of more complicated and costly mechanical devices. . . .
>
> "But nobody saluted. Manufacturers admire the rolamite but are unwilling to revamp their operations to make things with it. Engineers say older mechanisms work well enough. . . ."

it did not, petitioner's question directed to whether the Constitution and the patent laws preempt the state law of trade secrets insofar as it applies to "confidential" relationships is far too sweeping in scope. *That* question as posed is not susceptible of answer in this case where there is a vacuum of evidence relating to alleged "secrets" other than those constituting information cognizable under 35 U.S.C. 101 but forfeited to the public by commercial use in excess of one year, coupled with failure to file a timely patent application. The framing of such an amorphous question has, however, permitted petitioner and its amici to advance arguments in terms of "trade secrets" broadly so as to suggest that existing law has been disrupted to the point of upheaval. When put in context with what was decided, these "horribles" are illusory.

To amplify:

(1) The court below made no pronouncements on that phase of trade secret law relating to criminal remedies for "espionage", burglary, theft, fraud, bribery, assault and the like. As is apparent from the same court's later decision in *United States* v. *Greenwald*, 479 F.2d 320 (6 Cir. 1973), the decision below did not disrupt the criminal law and was not intended to do so.[15]

This is, of course, only logical. Remedies for unlawful taking or copying of drawings, blueprints, manuscripts, reports and other tangible items containing information do not turn upon whether or not the information is "secret" but rather are dependent upon that policy of law which preserves the sanctity of a man's person, home and place of business against unauthorized invasion and gives rise to the authorized police power of the states.[16]

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[15] See the briefs amici of Burroughs (p. 18 and p. 24, n. 41), the Manufacturing Chemists Association (p. 15, esp. n. 24) and Southwire Co. (p. 2) and Petitioner's Brief at 46.

[16] Police power does not, as suggested by some of petitioner's

A similar policy governs the elicitation of a "trade secret" from a man's mind by threat of violence. Again, the remedy is based on the unauthorized violation of the sanctity of the person and not upon alleged secrecy of the information—the same remedy being available even if the information elicited were old.

State law affording criminal remedies for embezzlement of *bona fide* "trade secret" information such as e.g. Ohio Revised Code §§ 1333.51(C) and 1333.99(E) reproduced at P.Br. 3, is likewise left undisturbed by the decision below,[17] which simply holds that technical information forfeited to the public by operation of the patent laws cannot be a *bona fide* trade secret.

(2) The decision below does not deal at all with the question of whether money payments may appropriately be exchanged for disclosure of "trade secrets", nor is the matter in any way raised by the record in this case. But exercise of the most ordinary common sense leads to immediate recognition that the law authorizes, encourages and enforces payment of money in exchange for communication of information that is neither "secret" nor new in many legitimate relationships. For example, people quite customarily take lessons in any number of subjects that are in no sense secret, ranging from cooking, sewing and flower arranging, to games such as golf, bridge, tennis and the like to arts such as music and painting. People also take lessons in how to speak foreign languages, how to write and how to practice a useful trade—e.g. carpentry or television repair. Attendance

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amici, provide any basis or pretext for the creation of private monopolies in the guise of "trade secrets".

[17] Note that criminal remedies for embezzlement of documents, including blueprints, drawings, reports, models and other tangible things do not rest upon whether the information embodied in the embezzled item is "secret" or "public" but rather, upon unauthorized taking of tangible property.

at schools and colleges, including those where tuition is paid in exchange for instruction in a wide spectrum of public record knowledge is regularly at a high level. In the circumstances the suggestion [18] that at least the payment provisions of existing and perhaps all contracts for disclosure of alleged "trade secret" information already forfeited to the public will be nullified by affirmance of the decision below, seems impractical.[19]

The related argument of many amici [20] that no further contracts for teaching secret "know-how" to competitors will ever be consummated because it will be cheaper for a competitor to hire an alleged "disloyal" employee at a high salary than to enter into a contract for full instruction in the subject matter seems obviously invalid. The amicus brief of the Licensing Executives Society points out that, in the case of jet engines alone, secret know-how may encompass "details of dimension of a thousand parts, temperatures of operation, choice of metallurgy, speed of rotation and centrifugal force on

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[18] The amicus Licensing Executives Society lists seven types of contracts (Br. 19-26) that it says this case will "invalidate"; amicus R. J. Reynolds Industries, Inc. laments that "existing contracts . . . will be so frustrated that agreements for the exchange of know-how . . . will be a thing of the past." (Br. 11). See also e.g. the briefs of amicus Optical Coating Laboratory, Inc., 8-9; amicus Burroughs Corp. 12-14 and 16-17.

[19] What *will* be nullified in such cases is the continuing "confidentiality" of the information conveyed, *not* the obligation to pay for services rendered incident proper instruction of a competitor in all details of the subject matter of the purported "secret", including how to use it. Whether those provisions of such contracts that require running "use" royalty payments subsequent to forfeiture will also be nullified, analogously to the treatment of a contract requiring similar "use" royalties under an expired patent in *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964) is for another case in which the issue is properly raised.

[20] See e.g.. the Optical Coatings Laboratory Brief 7-8, the R. J. Reynolds Industries Brief 10, the Southwire Co. Brief 4, the Burroughs Corp. Brief 15.

blades, pressure on gas and air to burn how fast—the distillation of a million 'obvious' details" (p. 39). Manifestly, one or two "disloyal" employees will not carry such a complex mass of detail in their heads—and if it is desired to acquire the "know-how", a competitor will need to pay for access to plans, engineering blueprints, technical data and reports and instruction by a whole team of company specialists and hence will have to approach the corporate proprietor of the "know-how" directly.

(3) The decision below did not affect the validity of any law passed by Congress, any court rule or any treaty.[21] Indeed, there is no evidence anywhere, including in the briefs of the various parties who raise this point, that the expression "trade secret" as utilized in any of the cited statutes, rules and treaties was intended to

[21] See Pet. Br. App. A. Petitioner and many amici seem to consider a broad reference to "trade secrets", without more, in a statute, rule or treaty as antithetical to the decision below. See, e.g., the briefs of the Association for the Advancement of Invention and Innovation p. 8; Manufacturing Chemists Association pp. 38-39; American Patent Law Association p. 4; Burroughs Corp. p. 7; R. J. Reynolds Industries p. 9; New York Patent Law Association pp. 23-25; American Bar Association p. 3, n. 2; pp. 7-8; Bar Association of the District of Columbia pp. 13-14; Licensing Executives Society pp. 57-58.

Amici Manufacturing Chemists Association ("MCA") (p. 38) and Rohr Industries (p. 4, n. 2) also endeavor to bootstrap the provisions of 35 U.S.C. 122 into a recognition of a "patent applicant's option to retain his invention as a trade secret if no patent is obtained" (MCA Br. 28). This interpretation of 35 U.S.C. 122 which does not itself mention "trade secrets" was enunciated, without support from precedent or legislative history in *Sears* v. *Gottschalk*, 357 F. Supp. 1327 (E.D. Va. 1973), a Freedom of Information Act case, now on appeal (No. 73-1699) before the Court of Appeals for the Fourth Circuit.

In that case, the Patent Office stipulated that it "has no right under any statutory or constitutional provision or on any other basis to recognize any sort of property right in subject matter which it has adjudged unpatentable." (Quoted from p. 48 of the printed Appendix filed in No. 73-1699).

apply in any way to technical information, the right to a patent for which had been previously forfeited to the people of the United States through commercial use for more than one year. Absent very clear evidence that "trade secret" as utilized in any one or more of those authorities actually encompassed the type of alleged trade secrets to which the decision below applies, these arguments are simply irrelevant and should be disregarded.[22]

4. The decision below did not in any way deal with the question of whether trade secret protection is consistent or inconsistent with federal antitrust policy and statutes (P. Br. 45-47), nor is the question in any way raised by any part of the record. The cases cited by petitioner to support the alleged consistency in no way establish that federal antitrust policy would be served by protecting as a "trade secret" through a perpetual injunction, information already deliberately forfeited to the public by failure to apply for a patent plus commercial use for more than one year.

Nor is there any authority anywhere that would indicate that the *de facto* monopolies created by disclosing alleged "trade secrets" to a plurality of prospective (i.e. employee) and actual competitors on a "confidential" basis, thereby establishing a conspiracy to withhold the "secret" information from outsiders and to prevent pub-

[22] Moreover, as to those authorities which have to do with nondisclosure by federal government agencies of alleged "trade secrets" communicated to them, it seems evident from a practical viewpoint that the intent of Congress was simply to encourage voluntary and nonlitigious submissions, *inter alia*, for investigational and informational purposes. In other words, the government, to gain cooperation in the submission of information needed or desired for governmental studies, surveys and the like, found it desirable as a matter of policy to accept as "trade secrets" any information so labeled and to maintain it on that basis, leaving parties adverse to the claimant including the government itself, to challenge the *bona fides* of the trade secret claim in actual controversies where the issue might arise.

lication, are or could be consistent with antitrust policy. And since a group of present and potential competitors banded together for the purpose of exploiting and holding "secret" from public view information forfeited to the public under the patent laws has a marked resemblance to the flagrantly monopolistic medieval guilds and their equally monopolistic exclusive corporation successors in England, escape from which was once a major motivation for coming to this country, antitrust policy would appear to be mocked rather than served by these conspiratorial groups.

5. Because the May 10, 1973 decision below obviously could not touch upon *proposed* Section 301 of S. 2504, the present administration's proposed patent bill first unveiled on September 27, 1973, petitioner's effort to influence this Court by what it *might* portend *if* it were passed is presumptuous, to say the least. Whatever "the Administration's view" (P. Br. 52) of what the law should be, this Court must deal with what it is.

6. The court below was properly not at all concerned with fine points of whether the alleged "trade secret" information involved in this case would have satisfied either or both of U.S.C. 102 and 103 *if* one or more patent applications had been filed.[23] Dedication to the public by operation of 35 U.S.C. 102(b) occurs regardless of whether technical information is *both* new (35 U.S.C. 101 and 102 generally) and unobvious (35 U.S.C. 103) or new but obvious and hence not patentable.[24] To put

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[23] See generally the briefs amicus of the Chamber of Commerce (pp. 12-18) and the American Patent Law Association (p. 6).

[24] There is compelling authority from this Court and elsewhere that technical information within 35 U.S.C. 101 which does not meet the exacting standard of 35 U.S.C. 103 is "dedicated" to the public as soon as it is first commercially used by operation of the Constitution itself. See infra 28a et seq.

The Sixth Circuit had no need to reach that question in the circumstance that all of the information in issue before it had been

it another way, this case is controlled not by what *might* have transpired if there had been a timely patent application, but by what *did* necessarily transpire by reason of petitioner's deliberate forfeiture to the public of the technical information on which the perpetual injunction is sought. See Section D 1a, *infra*, p. 32.

C. THE INDETERMINATE ORIGIN OF AND BASIS FOR TRADE SECRET LAW

Trade secret law is of relatively late day origin, having apparently been recognized in England around 1820 [25] and in the United States somewhat later about 1845.[26] The heyday of trade secret law did not begin in this country until sometime subsequent to the 1868 decision of the Supreme Judicial Court of Massachusetts in *Peabody* v. *Norfolk*, 98 Mass. 1952.[27]

The Bar Association of the District of Columbia as *amicus curiae* alleges that "the right of an inventor . . .

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commercially used for more than one year and no patent applications were filed—with the result that dedication had necessarily occurred *at the latest* on the expiration of the year of grace afforded by § 102(b) and well before the respondents' interest in competing with petitioner arose. See Section D 1a, *infra*, p. 32.

[25] *Yovatt* v. *Winyard*, 1 Jac. & W. 394, 37 Eng. Rep. 425 (Ch. 1820) cited in the decision below; see also *Newbery* v. *James*, 35 Eng. Rep. 1011 (Ch. 1817) and *Williams* v. *Williams*, 36 Eng. Rep. 61 (Ch. 1817).

[26] See *Jarvis* v. *Peck*, 10 Paige 118 (N.Y. Ch. 1843); *Hammer* v. *Barnes*, 26 How. Pr. 174 (N.Y.S.Ct. 1863).

[27] Amicus Curiae Manufacturing Chemists Association suggests (p. 11) that trade secrets were recognized by the Romans, citing Schiller, "Trade Secrets and the Roman Law; The Actio Servi Corrupti", 30 Colum. L.R. 837 (1930). Examination of the article in question, however, reveals that this alleged "trade secret" protection consisted of certain police power type sanctions available against third parties for corrupting a slave by bribery and the like.

is a right of natural law" (p. 7) and cites the 1602 decision in *Darcy* v. *Allin* [28] as giving recognition to the common law right of an inventor to practice his invention secretly. Careful examination of that case and of the section of Blackstone's Commentaries cited (p. 7, n. 4) to support the allegation reveal that these authorities, viewed most favorably to the Association, recognized an inventor's common law right to *maintain* his invention in secret rather than a right to *practice* in secret. The distinction is material.

European, including English technology was for centuries dominated by guilds and their "exclusive corporation" successors, each of which had absolute monopoly power over an assigned segment of technology within a given geographic area. If an inventor who was not a member of a guild wished to practice his own invention, he needed a patent—a license, as well as a temporary monopoly, from the king—in order to do so.[29] Any secret practice of an invention by a person not a guild member would, absent a patent, infringe an existing guild monopoly and the result would have been fines and imprisonment for the secret practitioner, plus seizure and destruction of the involved goods.[30] As recognized in *Deepsouth*

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[28] Noy, Rep. 173; 74 Eng. Rep. 1131 (1602). This is the famous case concerning the monopoly patent on playing cards, an old commercial product, granted by Elizabeth I.

[29] See *infra* 14a to 21a; see also the authorities therein cited. One such authority, Prager, "A History of Intellectual Property from 1545 to 1787", 26 J. Pat. Off. Soc'y 711 (1944), reproduces at p. 754 a part of the French edict of February 5, 1776 abolishing the guilds as follows:

> ". . . We want to abrogate those arbitrary institutions which . . . retard the progress of the arts, by multiple difficulties put in the way of an inventor; those guilds that dispute his right to use a discovery never made by themselves. . . ."

[30] The eventual nineteenth century implementation in England of obligations of "confidentiality" in "trade secret" technical information is a bit ironic. England concurrently granted patent rights to

Packing Co. v. *Laitram Corp.*, 406 U.S. 518, 525-6 (1972) "Under the [pre-Constitutional] common law the inventor had no right to exclude others from making and using his invention." There was, hence, no "property right" in an invention at common law in those times.

Consistent with its *actual* apparent nineteenth century origin, one commentator has asserted that: [31]

> ". . . The law protecting unpatented or unpatentable and uncopyrighted or uncopyrightable intangible industrial property as 'trade secrets' evolved in the nineteenth century during the early growth of industry in this country. The protection afforded such intangible property was of course at the expense of competing interests in individual freedoms to thought and circulation of ideas, the right to pursue any calling, the mobility of employees, and free competition, all interests reflected in the Bill of Rights of our Constitution. *The law of trade secrets was a judicially created subsidy to emerging industry at the expense of these interests.* This can be understood in the context of other subsidies afforded industry by the law during that period including the early sacrifice of the health and welfare of workers as *injuria absque damnum* and the strict limitations placed on tort remedies such as nuisance against industrial offenders. Industry generally has been permitted to invade the public trust without recourse. *But, times have changed and they have changed radically. Industry no longer needs subsidization at the expense of other previous public*

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importers who obtained from others *outside* England by any means, fair or foul, disclosures of new technology and then introduced them into the realm. Thus as late as the early 19th century Englishmen who "stole" so-called "secrets" outside England were rewarded—yet those who "stole" them in England could be punished or enjoined.

[31] Kane, "Limitations on the Law of Trade Secrets" 53 J.Pat. Off. Soc'y 162 (1971).

> *interests reflected in the Constitution.* Rather, it is the individual freedoms to pursue any calling, of mobility, of circulation of ideas, of free competition and regimentation, which today need careful guarding. . . ." (Emphasis added).

In short, trade secret law was born of expediency. It most assuredly was not born of "natural law".

Indeed, the notion that natural law confers a "property right" upon the creator or discoverer of any form of information, irrespective of positive law recognition, finds no support whatever in natural law philosophy as originally promulgated.[32]

According to Machlup and Penrose,[33] who have traced in detail its history, the "natural property right" concept as applied to inventors was itself originated in a spirit of expediency by the French politician De Bouffler [34] as a deliberate ruse to preserve patents from the strong popular tide against privilege and monopoly and *for* liberty and equality which dominated the French Con-

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[32] St. Thomas Aquinas, who is generally considered to be the father of natural law philosophy, did not advocate any natural property right in information. Nor did Aristotle, whose writings are conceded to have heavily influenced Thomas Aquinas, make any such suggestion.

[33] "The Patent Controversy in the 19th Century" 10 Journal of Economic History 1, especially at 11-17 (1950).

[34] Note 2, page 7 of the Brief Amicus of the Bar Association of the District of Columbia, which suggests by truncated, out of context apparent quotation from an early article by Noah Webster that he knew and espoused the concept in 1788, three years before De Bouffler. Resort to American Magazine for February, 1788 reveals no such statement as the quoted portio nof the note, though it *does* show that Webster, who was editor of the magazine, made an impassioned editorial plea in quite different words for recognition of a common law copyright. He said nothing about technical information, inventions or patents, however.

stitutional Assembly in 1791.[35] "It happens that those who started using the word 'property' in connection with inventions had a very definite purpose in mind: they wanted to substitute a word with a respectable connotation 'property' for a word that had an unpleasant ring 'privilege'." [36]

Modern day adherents of the "natural property right" of inventors in alleged trade secret technical information appear, like De Bouffler, to be motivated by considerations of expediency—their purpose being to find *some* means by which constitutionally unpatentable technical information can be protected as "property" so as to permit exclusion of others on one pretext or another from the use of the information.

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[35] The ruse was immediately successful. The French patent law passed that year contained a preamble stating, *inter alia*, "that every novel idea whose realization or development can become useful to society belongs primarily to him who conceived it, and that it would be a violation of the rights of man in their very essence if an industrial invention were not regarded as the property of its creator." Machlup and Penrose, *supra*, note 33 at 11.

[36] Machlup et al note 33 *supra* at p. 14. Many proponents of natural property rights in technical information argue in terms of John Locke's thesis that man has a natural right to the fruits of his labor. The rationale is that the product of one's labor, even if an intangible such as technical information, must, therefore, be recognized as one's property.

The rationale breaks down because technical information, unlike a tangible object, cannot be simultaneously exhibited to others and retained within the sole domination and control of its originator. Moreover, the nature of technical information is such that it may be originated by a plurality of individuals at different times, with the necessary result that it cannot be exclusive property of each or any of them. As observed by Thomas Jefferson in 1813, "If nature has made any one thing less susceptible than all others of exclusive property, it is the action of the thinking power called an idea, which an individual may exclusively possess as long as he keeps it to himself; but the moment it is divulged, it forces itself into the possession of everyone and the receiver cannot dispossess himself of it." Letter to Isaac McPherson, VI Writings of Thomas Jefferson (Washington ed.) at p. 180 (1814).

Our Constitution originated under circumstances totally inconsistent with the concept of a natural property right in technical information.[37] At least initially, many of the founders of our nation, including Thomas Jefferson, were opposed to monopolies of any sort including specifically patents.[38] Nevertheless, it was ultimately agreed to authorize a carefully limited patent system for the purpose of promoting "Progress of Science and useful Arts" and for no other purpose.[39] No record exists anywhere that

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[37] See the detailed discussion *infra*, p. 22a to 41a; see also the authorities therein cited.

[38] Thus Jefferson, writing to Madison from Paris on July 31, 1788, observed that "saying there shall be no monopolies lessens the incitements to ingenuity, which is spurred on by the hope of a monopoly for a limited time, as of 14 years; but the benefit even of limited monopolies is too doubtful to be opposed to that of their general suppression." The Papers of Thomas Jefferson, Vol. XII, p. 440.

[39] James Madison, one of the most active of the Constitutional framers, responded to Jefferson, note 38 *supra*, in a letter of October 17, 1788 that

> "With regard to monopolies, they are justly classed among the greatest nuisances in Government. But is it clear that, as encouragements to literary works and ingenious discoveries, they are not too valuable to be wholly renounced? Would it not suffice to reserve in all cases a right to the public to abolish the privilege, at a price to be specified in the grant of it? Is there not, also, infinitely less danger of this abuse in our Governments than in most others? *Monopolies are sacrifices of the many to the few.* Where the power is in the few, it is natural for them to sacrifice the many to their own partialities and corruptions. Where the power, as with us, is in the many, not in the few, the danger cannot be very great that the few will be thus favored. It is much more to be dreaded that the few will be unnecessarily sacrificed to the many." Letters and Other Writings—Madison, Vol. I, 1769-93, p. 427.

In Madison's parlance, trade secrets, which *are* "sacrifices of the many to the few" are monopolies. Moreover, the usurpation in the "few" of power over technology which trade secrets represent as now practiced in modern industry (*supra*, pp. 7 to 12) represents a very great danger to many individual liberties. See Kane quoted *supra* at 21.

suggests the Founding Fathers were aware of, discussed or were in any way influenced by any concept of trade secrets or that they ever recognized such a possibility as an alternative to patents.[40]

Consonant with the limited power afforded it, Congress promulgated a patent system, initially in 1790, and thereafter through a continuous chain of statutes. This Court first considered and rejected the notion that the patent system is based upon a natural right of inventors in *Pennock* v. *Dialogue*, 27 U.S. 1, 16-17 (1829) and concluded it to be solely a creature of positive law in which the public interest, and *not that of the inventor*, was paramount.[41] The Court was careful to point out that "the Constitution . . . contemplates . . . that this exclusive right shall exist but for a limited period, and that the period shall be subject to the discretion of Congress. The Patent Act of the 21st of February, 1793, ch. 11, prescribes the terms and conditions and manner of obtaining patents for invention; and *proof of a strict compliance with them lies at the foundation of the title acquired by the patentee.*" [42]

Four years later in *Shaw* v. *Cooper*, 32 U.S. 390, 318 (1833), the Court again stressed that the exclusive right

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[40] See generally the voluminous historical documents relating to the Constitutional Convention, including journals of its participants included in House Document No. 398, 69th Cong., 1st Sess. and in Farrand, "The Records of the Federal Convention of 1787."

[41] This primacy of public interest is a fundamental cornerstone of federal patent policy under the Constitution, from which this Court has never departed. It has been reiterated most recently in *Deepsouth Packing Co., supra*, p. 21, 406 U.S. at 531. Trade secret monopolies, of course, invert the fundamental order of priorities and for this additional reason are antagonistic to the patent system.

[42] The Court in *Pennock* also observed that "[i]t has not been, and indeed cannot be, denied that an inventor may abandon his invention and surrender or dedicate it to the public. This inchoate right, thus once gone cannot afterwards be resumed at his pleasure; for, where gifts are once made to the public in this way, they become absolute." 27 U.S. 1, 16.

available under the patent laws, even though perhaps justly deserved by inventors "*can only be secured by a substantial compliance with every legal requisite.* His exclusive right *does not rest alone upon his discovery,* but also upon the sanctions which have been given to it and the forms of law with which it has been clothed." [43]

Similarly in *Gayler* v. *Wilder*, 51 U.S. 477, 494 (1850), it was said that

> "the discovery of a new useful improvement is vested by law with an inchoate right to its exclusive use, which he [the inventor] may perfect and make absolute by proceeding in the manner which the law requires. . . .
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> * * * *
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> Now, the monopoly granted to the patentee is for one entire thing; it is the exclusive right of making, using, and vending to others to be used, the improvement he has invented, and for which the power is granted. *The monopoly would not exist at common law and the rights, therefore, under it can not be regulated by the rules of the common law. It is created by the Act of Congress; and no rights can be acquired in it unless authorized by statute and in the manner the statute prescribes.*"

To the same effect, the Court in *Brown* v. *Duchesne* stated:

> "*But the right of property which a patentee has in his invention, and his right to its exclusive use, is derived altogether from these statutory provisions; and this court has always held that an inventor has no right of property in his invention, upon which he can maintain a suit, unless he obtains a patent for it, according to the Acts of Congress;* and that his rights are to be regulated and measured by these

[43] Unless otherwise stated, emphasis in quotations hereinafter is added.

laws, and cannot go beyond them." 60 U.S. 183, 195 (1857).[44]

Again, in *Marsh* v. *Nichols*, 127 U.S. 605 (1888) this Court emphasized that:

> ". . . *the patent for an invention conveys nothing which the Government owns or its predecessors ever owned. The invention is the product of the inventor's brain, and if made known would be subject to the use of any one, if that use were not secured to him.* Such security is afforded by the Act of Congress when his priority of invention is established before the officers of the Patent Office, and the patent is issued. The patent is the evidence of his exclusive right to the use of the invention; it therefore may be said to create a property interest in that invention. Until the patent is issued there is no property right in it, that is, no such right as the inventor can enforce. Until then there is no power over its use, which is one of the elements of a right of property in anything capable of ownership. . . ."

Most recently in *Graham* v. *John Deere Co.*, 383 U.S. 1 (1966), this Court as again reaffirmed that "[t]he patent monopoly was not designed to secure to the inventor his natural right in his discoveries."

Congress has itself clearly recognized that its power to legislate as to patents is in no sense dependent upon any alleged natural right of property in information. Thus, in House Report No. 1494, 52nd Congress, First Session, written as an incident to the codification of the patent statutes in 1894, it was stated that

> "The object to be attained and the reason for the constitutional grant of power are imbedded in the grant itself. They are 'to promote the progress of science and the useful arts.' There is nothing said

[44] Compare the efforts of Kewanee in *this* case to maintain a suit on the basis of "natural" or contractual property right.

about any desire or purpose to secure to the author or inventor his 'natural right to his property'. The monopoly given him is avowedly given, not primarily for his benefit, but for the benefit of society at large. The claims made so often, especially of recent years, that the author or inventor has a natural right to the exclusive use of his production, and is therefore entitled, as of course, to legislation securing to him the full enjoyment of this right, does not seem to have been specifically passed upon by the fathers; but one thing is absolutely certain, they did not make this constitutional grant of power upon any such ground. Much confusion of thought has arisen from the assertion of this right as an innate, absolute right existing in the individual, and a contemporaneous neglect to examine the limitation of the power given in the premises to Congress.

"It is perhaps safe to say that for the past twenty or thirty years no Committee on Patents has had an existence which has not had the fortune to listen to long and very interesting arguments claiming the existence in the author or inventor of this right, and the duty of Congress to give by legislative enactment full and complete enjoyment of that right. Whatever may be the correct conclusion as to the existence of any such right, the duty of Congress is measured by its power, and that power can be no broader than the words conferring it.

". . . It is sufficient to read the words of the grant in their plain every-day meaning to discover that the good of society was the only thing provided for, or intended to be provided for. . . ."[45]

As well said by Mr. Justice Brandeis, dissenting, in *International News Service* v. *Associated Press*, 248 U.S. 215, 250 (1918):

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[45] A second Congressional rejection, in much the same language, of the natural right argument, was made in connection with copyright legislation. See House Report No. 2222, 60th Congress, 2nd Session (1909) at page 7.

". . . An essential element of individual property is the legal right to exclude others from enjoying it. If the property is private, the right of exclusion may be absolute; if the property is affected with a public interest, the right of exclusion is qualified. But the fact that a product of the mind has cost its producer money and labor, and has a value for which others are willing to pay, is not sufficient to insure to it this legal attribute of property.[46] The general rule of law is, that the noblest of human productions—knowledge, truths ascertained, conceptions, and ideas—become, after voluntary communication to others, free as the air to common use. Upon these incorporeal productions the attribute of property is continued after such communication only in certain classes of cases where public policy has seemed to demand it." [47]

Essentially to the same effect Justice Holmes, concurring with the majority in the same case, said "[p]roperty, a creation of law, does not arise from value, although exchangeable—a matter of fact. Many exchangeable values may be destroyed intentionally without compensation. *Property depends upon exclusion by law from interference* . . ." [248 U.S. at 246].

In short, property rights in technical information do not arise simply in consequence of the expenditure of

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[46] Importantly, this fact—i.e. that technical information costs money and labor, and has a value for which others would be willing to pay—is one of the bases advanced by petitioner and many of its amici for protection of the trade secret "property" rights denied in the Court below. See *infra*, Section E, p. 47.

[47] The exceptions recognized in the immediately following passage are those which are copyrightable and "the inventions and discoveries [constituting] . . . the few comprised within the patent law."

In addition, Justice Brandeis recognized cases in which courts "interfere to prevent curtailment of plaintiff's enjoyment of incorporeal productions" which are based upon "breach of contract or of trust, or upon unfair competition" but gave *no* indication that incorporeal productions already forfeited to the public could be protected on any ground.

time, effort, labor or ingenuity;[48] nor do they arise because the time, effort, labor and ingenuity required a substantial financial outlay.[49]

D. THE CONSTITUTION AND FEDERAL LAW PRECLUDE THE PERMANENT INJUNCTION SOUGHT

There being no "natural" property in intangibles such as technical information, petitioner's claimed right to a permanent injunction must stand or fall on common or statutory law of Ohio. The circumstance that there was no common law right in trade secrets or inventions generally recognized prior to the adoption of the Constitution, suggests strongly the lack of basis for any argument that power to regulate trade secret rights being

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[48] This was recognized in English courts as early as 1571 in the case of *Matthey's Patent* for a particular kind of knife handle held invalid on the ground that the cutlers' guild had previously made similar knives with a somewhat different type of handle and that the change was within the ordinary skill of the art. The court observed, *inter alia*, that "he could never have benefit from this patent *although he labored very greatly therein.*" See Prager, "Standards of Patentable Invention From 1474 to 1952," 20 University of Chicago L.R. 69, 71-72 (1952) and authorities cited therein.

[49] Clearly only some financial outlays result in the acquisition of property. Many others are made in exchange for *services* of one sort or another including medical, legal, and accounting assistance, personal grooming, household help, etc. Many such services can be performed only through considerable expenditure of time, effort, labor and ingenuity; yet no one argues that the product of these services is "property" of any sort.

By far the major portion of research and development outlays is payment for the services of trained personnel such as engineers, chemists and the like who conduct the investigations. No reason has been advanced for viewing the product of the services of these people any differently from the product of the services of physicians, dentists, lawyers, accountants, beauticians, barbers, maids or waiters.

"not given Congress was of course reserved to the states." [50]

Rather, it seems clear on the fact of the Ninth (2a) and Tenth (2a) Amendments to the Constitution that any powers or rights not within the knowledge of the people at the time the Constitution was adopted, were intended to be reserved to the people under the Tenth Amendment or retained by them under the Ninth Amendment at least until expressly delegated to state or federal government. Any other interpretation would be in direct derogation of the sovereignty of the people, perhaps the most basic tenet of our particular form of government.

There is no pretense here of an express reference to trade secrets in the Constitution of Ohio—and this is understandable inasmuch as Ohio had been a state well before the emergence of the trade secret concept. Nevertheless the lack of *in haec verba* mention of trade secrets in the earlier federal Constitution is urged by petitioner's amici to be significant to show an intention not to preempt trade secret law at the federal level.

In short, the intent of the Constitutional framers as to trade secrets was non-existent and questions of that

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[50] The quotation is from the brief amicus curiae of the Licensing Executives Society, pp. 49-50; see also e.g. the brief amicus of the Manufacturing Chemists' Association, pp. 20-22; brief amicus of Burroughs Corp., pp. 19-23 and the brief amicus of the Bar Association of the Distirct of Columbia, pp. 9-10. As to the latter, it should be noted that the powers of both state and federal governments, under our system of government, were delegated by the *people*. Hence, it is immaterial, even if correct, that "the states did not delegate any power to regulate rights in secret inventions," (id. at 9). It seems fair to suggest, moreover, that the people never delegated to either state or federal governments the full power to regulate "secret inventions"—hence the dicta in some cases, e.g. *United States* v. *Dubilier Condenser Corp.*, 289 U.S. 178 (1933) regarding an inventor's privilege (rather than enforceable right) only to keep his invention *secret*, i.e., to refrain from telling it to *anyone* if he so chooses.

intent are relevant here only insofar as they demonstrate the meaning of the patent laws and the constitutionally guaranteed right of every citizen to pursue a trade or business and thereby show conflict with Ohio law.

1. Preemption by the Patent Clause and Statutes

Grants by the states of exclusionary rights in science and useful arts which have the net effect of retarding or even stifling progress are, regardless of purpose, in the teeth of the Constitutional mandate for promotion of progress in these fields. Hence, to the extent that Congress exercises its patent power no state may engage in activities that are contrary to, or otherwise designed to frustrate, the federal action taken.

a. *Patent Policies*

For example, the constitutional patent clause contains a mandatory minimum level standard of invention which *must* be met before a valid patent can issue.[51]

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[51] See *infra*, 5a to 50a. For the states to grant *de facto* monopolies under the "trade secret" label in technical information which falls short of the high constitutional standard of invention is in the teeth of the patent power *and* in derogation of Fourteenth Amendment guarantees that every citizen is entitled to pursue an ordinary calling (37a to 41a, *infra*). Hence the suggestion in Adelman "Secrecy and Patenting: Some Proposals for Resolving the Conflict", 1 APLA Quarterly Journal 296 (1973) that the decision below be implemented only in regard to "patentable" inventions and the states be permitted to grant trade secret protection to technical information falling *below* the constitutional standard of invention, flies in the face of constitutional strictures. In addition, the suggestion would be cumbersome to implement.

In line with the "notorious difference" between Patent Office and court strictness of application of patentability tests which this Court referred to in *Graham*, *supra*, n. 10, "[i]t is now a truism . . . that if you sit around the Patent Office long enough, and change your claims often enough, you will eventually get some kind of a patent on almost anything". M. Shapiro, "The Supreme Court and Administrative Agencies", The Free Press (New York 1968) p. 189. Most patents are found invalid, if litigated—but

Similarly, the constitutional patent clause was drafted at a time when the idea of a written specification was very new.

The earliest patents for inventions, including new importations, granted in England and the Italian city states preceded the introduction of the printing press in Europe. In those early times and continuing for more than two centuries subsequent to its adoption, dissemination of technical information by the written word was extremely rare. The accepted fact was that an "inventor" (including an importer) made his invention public by introducing it into commercial use.[52] While the notion of a written patent specification appeared in England, spontaneously, about the middle of the seventeenth century, England had no statute requiring the submission of a written

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litigation is time-consuming and expensive and should not be a requisite to determining whether the rationale below applies.

See also generally Weissman, "Testimony Before the Senate Judiciary Committee, Subcommittee on Patents, Trademarks, and Copyrights, Relating to S. 1321 (Hart bill)", 55 J. Pat. Off. Soc'y 604 (1973) wherein administrative pressures to issue ever increasing numbers of lower and lower quality patents are quite fully and candidly exposed.

[52] See Federico, "Origin and Early History of Patents", 11 J.Pat. Off. Soc'y 292 (1927) which states at p. 304 that

> "The consideration of the patent grant was the creation of a new industry and, as has already been noted, knowledge was given to the public by the actual establishment of the industry and, in some cases, by the teaching of apprentices. The patents in general contained no description, either in writing or by a drawing, and such description did not seem to have been necessary. The change to a requirement of a formal written disclosure, or specification was gradual. A few of the early seventeenth century patents contained a description of the invention and the custom of presenting a specification increased with time. These specifications were made solely on the patentee's initiative and for the purpose of making the scope of their grants more certain."

specification until 1852,[53] well after the promulgation in this country of the various general patent laws of 1790, 1793 and 1836, each of which required a full and complete written description analogous in every respect to that required by present 35 U.S.C. 112.[54]

Thus, to a point in time not long before the Constitution was adopted, commercial use of an invention was definitely synonymous with making it public. There is no indication that the requirement, in the first and subsequent United States patent laws, for a written specification was intended to change this state of affairs. *Per contra*, there is every indication that this was based upon a desire to "*promote* progress" by disseminating written information quickly and freely. As one writer has suggested, the intent of the constitutional patent clause and the patent laws which implemented it "was to encourage domestic invention, but the actual commercial introduc-

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[53] See Bugbee, "Genesis of American Patent and Copyright Law" Washington Public Affairs Press (1967) at p. 41.

[54] One of the vices of the "trade secret" concept as espoused by petitioner and its amici is that an inventor often submits to the Patent Office a specification couched in vague generalities, including a detailed description of a few crude early experiments and obtains a patent, while, at the same time, withholding from the Patent Office the "know-how" requisite to actual commercial practice of the invention. Such deliberate withholding of information requisite to apprise the public of precisely how to make and use the invention under 35 U.S.C. 112 is a specific ground for invalidity of a patent under the provisions of 35 U.S.C. 282. However, it is difficult for the Patent Office, lacking machinery to compel disclosure of evidence, including even subpoena power, to police the completeness of the specification effectively. It is noted that on the order of 70 to 75 per cent of litigated patents are held invalid in the courts, many at least in part on grounds of deficiency under 35 U.S.C. 112.

The fact that many patent owners use trade secret law to "protect" know-how outside the patent laws in derogation of 35 U.S.C. 112, is the subject of comment by Doerfer in "The Limits of Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy," 80 Harvard L.R. 1432, 1442-4 (1967).

tion of the invention was left to business enterprise. It was not intended to require that the inventive thought should be withheld until the inventor could incorporate it in actual manufacture. *The intent was to bring about publicity of the ideas as soon as possible as an incentive for others to improve thereon and to stimulate and advance the useful arts.*" [55]

Decisions of this Court are consistent with the suggestion that the written specification was not intended to supplant commercial use as a means of introducing technology to the public, but was intended as a stimulant to early disclosure.[56]

One of this Court's earliest patent decisions, *Pennock* v. *Dialogue*, *supra*, p. 25, clearly expresses the principle that deliberate forfeiture by the inventor of the inchoate right to a patent constitutes a gift to the public.[57]

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[55] See Michel, A.J., "Historical Development of Principal Patent Systems," (page 19), a thesis available in the Library of Congress under Card No. T215M43.

[56] Pointedly there is *no* evidence that it was intended to so qualify the history of centuries as to place technical information in the public domain via commercial use *only* if completely disclosed by the marketed product, thereby giving rise to that hypocrisy of modern patent law—the "secret public use". See e.g. the brief amicus of Manufacturing Chemists Association, p. 30-31; P. Br. 28-32.

Note in this connection the fact that, as pointed out by Adelman *supra*, note 51, recognition of a protectable "trade secret" in commercially used technology where the product sold or used does not reveal the "secret" would result in an arbitrary, unfair and random classification among proprietors of technology as to who would be eligible for protection and who would not.

[57] *See* the language quoted in note 42 *supra*. *Pennock* is cited in *Metallizing Engineering Co.* v. *Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516 (2 Cir. 1946)—a case heavily relied on by petitioner (P. Br. 29-30)—as supportive of the conclusion that a use can be both commercial and secret but the real thrust of *Pennock* is that commercial use of technical information was at that time, as earlier, understood to constitute a gift to the public absent *timely* steps to acquire a patent

The same thought appears clearly in the quotation from *Kendall* v. *Windsor*, 62 U.S. 322 (1858) relied upon by the court below in its decision in this case (478 F.2d at 1082; Pet. A14).

In *Consolidated Fruit Jar Co.* v. *Wright*, 94 U.S. 92 (1877), this Court squarely held that commercial use in excess of the statutory period without filing a timely patent application results in an unqualified gift to the public, and hence places the pertinent technology within the public domain.

As this Court put it:

> "Inventors are a meritorious class. They are public benefactors. They add to the wealth and comfort of the community, and promote the progress of civilization. A patent for an invention is as much property as a patent for land. The right rests on the same foundation, and is surrounded and protected by the same sanctions. There is a like larger domain held in ownership to the public. Neither an individual nor the public can trench upon or appropriate what belongs to the other. The inventor must comply with the conditions prescribed by law. If he fails to do this he acquires no title, and his invention or discovery, no matter what it may be, is lost to him, and is henceforward no more his than if he had never been in anywise connected with it. *It is made, thereupon, as it were by accretion, irrevocably a part of the domain which belongs to the community at large.* The invention here in question is within this category." [58]

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[58] Amicus the Bar Association of the District of Columbia relies on the 6-3 decision in *Gayler* v. *Wilder*, 51 U.S. 477 (1850) to allege that this Court has recognized "interplay of common [trade secret] law and patent law" (Br. 11) by holding an alleged "secret public use" not to defeat a later applied for patent. But as the amicus is forced to admit (p. 11) the question of the possible

As petitioner somewhat backhandedly recognizes (P. Br. 30-31), *Egbert v. Lippmann*, 104 U.S. 333 (1881) and *Hall* v. *Macneale*, 107 U.S. 90 (1882) are consistent with *Consolidated Fruit Jar*. Both *Hall* and *Smith & Griggs Mfg. Co.* v. *Sprague*, 123 U.S. 141 (1887), which follows *Hall* specifically rejected the notion that elements "hidden from view" as an incident to commercial use are "secret".

See also *Corona Cord Tire Co.* v. *Dovan Chemical Corp.*, 276 U.S. 610 (1927) where automobile tire inner tubes cured with diphenylguanidine—a fact not discernible by inspection of the tubes—which were used publicly by a third party more than the then two year grace period prior to the patent application, were persuasive on the question of dedication to the public.

Against this array of authority petitioner and its amici rely on later lower court decisions,[59] none of which reached this Court, to insist that a "public use" may be so conducted as to reserve "trade secret" rights in the user. These cases include *Macbeth-Evans Glass Co.* v. *General Electric Co.*, 246 F. 695 (6 Cir. 1917); *Metallizing* cited supra, n. 57, and *Huszar* v. *Cincinnati Chemical Works*, 172 F.2d 6 (6 Cir. 1949). Notably, *not one* of them is concerned with whether a perpetual injunction may issue to aid a putative inventor in reserving to himself a "secret" in technology used com-

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dedicatory effect of the use was not argued in *Gayler*—and the later decision in *Consolidated Fruit Jar* is in any event controlling.

Consolidated also clearly demonstrates error in *Mine Safety Appliances Co.* v. *Electric Storage Battery Co.*, 405 F.2d 901 (CCPA 1969) cited and quoted by petitioner (p. 28) by making clear that patent laws operate automatically to force technical information into the public domain on the happening of statutorily defined events.

[59] See P. Br. 28-32; brief amicus of MCA, 29-31; brief amicus of American Patent Law Association 6-7.

mercially for more than one year.[60] Rather, all find that the commercial use whether or not embodying an alleged "secret" bars a patent. Logic would seem to compel that the same commercial use in excess of the grace period of 35 U.S.C. 102(b)(3a) would equally bar issuance of an injunction to enforce what *Metallizing* refers to as "practical monopoly by means of secrecy." (153 F.2d at 519).

In opposition to logic, petitioner and its amici advert to this Court's alleged recognition of a right to hold information secret.[61] But the language quoted is in every instance dictum and when read in context suggests only that a self-styled inventor is not under a legal compulsion to obtain a patent or to make a public disclosure of any kind. As said in *Bates* v. *Coe*, 98 U.S. 31, 45-6 (1878) "Inventors *may*, if they *can* keep their inventions secret. . . ." There is no suggestion anywhere in this Court's decisions of a legally protectable *right* to secrecy in technology much less a holding that the law will aid and abet one who claims "secrets" in unpatented and unpatentable technology in obvious frustration of the constitutional patent policy favoring free circulation of ideas,[62] by enjoining others from competitively using those "secrets".

In sum, this Courts' pertinent decisions are overwhelmingly to the effect that the forfeitures effected by the

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[60] *Macbeth-Evans* was decided under R.S. 4886 when the bar period was two years and the principle otherwise unchanged.

[61] See e.g. P. Br. 42-43.

[62] Significantly *Becher* v. *Contoure Laboratories, Inc.*, 279 U.S. 388 (1929) (P.Br. 43) involved a suit to compel assignment to the true inventor's corporate assignee of a patent which the inventor's co-worker wrongfully obtained in his own name and would not be in any way affected by affirmance of the decision below. Neither, insofar as the opinions show would the actual holdings in *United States* v. *Dubilier Condenser Corp.*, *supra*, note 50, or *Dr. Miles Medical Co.* v. *John D. Park & Sons Co.*, 220 U.S. 373 (1911) heavily relied on at P. Br. 42-3.

patent laws—whether as a consequence of patent expiration,[63] patent invalidity[64] or failure to file a timely application when coupled with commercial use in excess of the statutory grace period[65]—are automatic and *depend not upon what the public actually knows but upon what the public has a free right to use*, known or unknown.[66]

b. *Reasons for Preemption*

Petitioner and its amici nonetheless suggest[67] the power of the states to be coextensive with that of the federal

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[63] See *Brulotte* v. *Thys*, *supra*, note 19; *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249 (1946).

[64] E.g. *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969); *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

[65] *Supra*, pp. 35 to 37.

[66] Petitioner and its amici seem to suggest that so long as a proprietor of technology has a "secret" he must receive some *quid pro quo* in the way of protection to part with it. But the reward afforded by the patent laws is *not at all* for giving up a right to keep technology secret, but for timely disclosure of an invention beneficial to society. Beginning with the 1790 patent act, the inventor has always been required to disclose his invention in exchange for a *chance* of reward rather than a guarantee of reward, consistent with the constitutionally mandated policy that the public interest, not the inventor's, is paramount.

To approximately 1879, the applicable rules of the Patent Office routinely made abandoned patent application disclosures publicly available. Even today abandoned and, sometimes, pending patent application disclosures are publicly available in a plurality of situations where no "reward" for the disclosure is given. For example, European countries including those with patent registration systems where patents issue virtually immediately require that the United States counterpart application be supplied as a basis for claiming a priority right under tht Paris Convention and in such cases, a copy of the United States application becomes promptly available from the foreign patent office. For another example, abandoned applications mentioned in issued patents are routinely available.

[67] E.g. P. Br. 37-40; brief amicus of the Chamber of Commerce 8-12; brief amicus of MCA 32-35.

government to protect technical information within the scope of 35 U.S.C. § 101 and argue that, federal and state objectives being different, there is no reason why "patent" powers cannot coexist in the same manner as state and federal copyright laws under *Goldstein* v. *California*, 412 U.S. 546 (1973).

There are several answers to this position. One is that regardless of possible differences in *objectives*, the results of concurrent patent and trade secret "property" protection within the scope of 35 U.S.C. § 101 are overlapping and disparate, with the trade secret protection being in frustration of patent policies.

Another is that *Goldstein* itself recognizes and reaffirms the preemptive effect of the patent laws vis-a-vis state unfair competition laws—and "trade secrets" are, after all, just one variety of unfair competition (P. Br. 46).

Still another is that *Goldstein* relates to copyrights which are narrow and unique rights, protective only against copying, and not infringed by another's original creation of even a closely related work. The patent on the other hand is an absolute monopoly over a segment of technology which prevents others from engaging in its use in any way.[68] State and federal copyright collisions

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[68] See Fox, "Monopolies and Patents", (Toronto 1947) at pp. 14-15 where it is stated:

> ". . . If an independent author arrives at the same results by independent means, the copyright owner has no right to prevent to that extent the invasion of his monopoly. The difference between the monopoly conferred by patent and by copyright will be immediately perceived. If it could be shown, as a matter of fact, that two precisely similar works were in fact produced wholly independently of one another, the author of the work published first would not be entitled to restrain the publication by the other author of that author's independent original work. What is given is the merely negative right to prevent the appropriation of the labours of an author by

are hence easily avoidable—but state and federal patent collisions with both operating inside the scope of 35 U.S.C. § 101 would be inevitable. Hence, federal law necessarily governs pursuant to the Supermacy clause (1a) and the conflicting state law is void. See *Sears* and *Compco*, *supra*, note 64.

The fact that some state patents were granted in the years prior to the Constitution as pointed out in *Goldstein*, *supra*, is not, as petitioner argues (n. 7, pp. 25-26) supportive of a present right in the states to grant "patents" or other exclusionary property rights within the scope of 35 U.S.C. 101. Congress in the Patent Act of 1793 [69] specifically conditioned the right to a federal patent in the very same subject matter area now defined by § 101 [70] for a previously state-protected invention upon the relinquishment of the state patent *and thus made clear an intent to preempt the field absolutely.* Failure of subsequent patent acts to deal with the matter can, no doubt, be attributed to the fact that inventors ceased seeking state grants after the federal patent laws became effective.[71]

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another. A patent right, on the other hand, is quite different. The monopoly is absolute, and once an inventor has complied with the provisions of the Patent Act, and a valid patent has issued to him, he can prevent the exercise of that invention by anyone else who has, quite in the belief that he was actually inventing something new, and without knowledge of the patentee's patent, invented the same thing, even simultaneously with the patentee."

[69] 1 Stat. 318 § 7.

[70] 1 Stat. 318 § 1; see also the Reviser's note to present 35 U.S.C. § 101.

[71] None of the states had established procedures governing the manner of applying for a patent—hence, it was necessary for an inventor to make a separate petition to and meet with the legislature in each state, a time consuming, cumbersome and expensive undertaking. No doubt this was one of the reasons why Madison noted in The Federalist Papers, No. 43, that "The States cannot . . . separately make effectual provision for . . ." patents.

Patents, unlike copyrights, are also powerful instruments of interstate commerce. As the Court recognized in *Blonder-Tongue Laboratories* v. *University of Illinois Foundation*, 402 U.S. 313, 346 (1971), the circumstances obtaining under prior law when a patent had been held invalid as to one manufacturer but was presumed valid as to all others tended to promote artificial marketing and pricing inequalities and to interfere with the free competitive policy of the antitrust laws. For the states to compete among themselves and with the federal government in the grant of exclusionary rights in subject matter defined by 35 U.S.C. § 101(3a) is hence to derogate the exclusivity of federal interstate commerce power [72] and to disrupt significantly the effectiveness of federal policies promulgated under that power, such as that expressed in the antitrust laws.

Another compelling reason why the power to grant exclusionary rights within the scope of the 35 U.S.C. 101 subject matter definition is and must be confined to the operation of federal patent law, is the preeminent right under the Fifth (1a) and Fourteenth (2a) Amendments to the Constitution (37a to 41a) of every citizen to utilize his own talents and skills in the pursuit of a trade or calling.[73] This right has a necessary interaction with the patent laws, as explicated, *infra*, 37a to 47a. The paramount interest of society is in preserving the rights of all citizens in the free use of their own skills and talents—a goal which would be undermined by indiscriminate patent grants or other grants of "property" in technology. The federal patent laws, by strictly defining criteria for patentable invention that neither interfere with the free circulation of technical information generally nor with its free use in pursuit of an ordinary trade or calling, co-

[72] *Gibbons* v. *Ogden*, 22 U.S. 1 (1824).

[73] *Allgeyer* v. *Louisiana*, 165 U.S. 578, 589-90 (1886) quoted *infra*, 38a; *Greene* v. *McElroy*, 360 U.S. 474 (1959).

operate with the Fifth and Fourteenth Amendments. Exercise by the states of competing powers based upon competing and subsidiary policy objectives would be detrimental to the preservation under the patent laws of the constitutionally mandated individual rights. For a more detailed discussion of these rights as they have been explicated by this Court and the manifest relationship between the preservation of these rights and the strict maintenance of the constitutional standard for patenable invention, see, *infra*, 37a to 41a.

In its exercise of the patent power, Congress has been careful not to disturb objectives and policies dictated by *other* constitutional mandates. The complex interplay of the patent system with federal antitrust policy under the commerce clause and with society's goal, committed to federal supervision, of preserving rights of individual citizens *inter alia*, in their use of their talents and skill in pursuit of a trade or calling is a matter of such delicate balance that intervention by the states in furtherance of secondary policy objectives could not be countenanced. Congress having preempted the grant of property rights in technical information defined by 35 U.S.C. 101, the states may not make conflicting grants.[74]

2. Considerations Affecting Preemption Arising Solely Under the Commerce Clause

Some of petitioners' amici have stressed the alleged importance and even necessity to international commerce and to the United States balance of payments position in

[74] The question of whether the states *may* take action to protect inchoate property rights in technical information otherwise defined by 35 U.S.C. 101 during the period when an invention is being completed, a patent application filed and that application examined in the Patent Office, is not within the scope of this case. There is accordingly no intention herein to intimate one way or another what judgment should be made on that question at such time as it is properly presented in another case.

world markets of preserving state trade secret "property rights" in subject matter defined by 35 U.S.C. 101.[75]

United States patent law and policy is, of course, irrelevant to foreign commerce because, as this Court has repeatedly held, United States patents have no extraterritorial effect.[76]

Power over foreign commerce, however, is exclusively the province of the federal government under the Commerce clause (1a). We know of no basis—and petitioners' amici suggest none—pursuant to which individual trade secret policies of the states could be validated as a means for fostering foreign commerce in direct derogation of an exclusive federal power in which the states, pursuant to the Supremacy clause (1a), may not intermeddle.

Hence, to the extent that the trade secret "property" here in issue is sought to be justified as a spur to foreign commerce, the argument must be rejected, and the matter left to such future legislative action as Congress may elect to take.[77]

3. Considerations Affecting Preemption Arising Solely Under the Fifth and Fourteenth Amendments.

The question of whether the state of Ohio may permanently enjoin respondents in this case from the use of

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[75] See e.g., the amicus briefs of the Chamber of Commerce, especially at pp. 25-26 and 35; the Association for Advancement of Invention and Innovation (p. 7); the Licensing Executives Society (App. A., p. 92); Southwire Company (p. 4); Optical Coating Laboratory, Inc. (p. 8) and Rohr Industries, Inc. (pp. 7-9).

[76] See *Brown* v. *Duchesne*, supra, p. 26 at 195; see also *Deepsouth Packing Co.* v. *The Laitram Corp.*, *supra*, p. 21.

[77] In fairness, we do not understand that the record of *this case* really raises any question directly relevant to foreign commerce considerations. Hence, the Court should not in any event rest its decision here on such considerations.

the alleged trade secret "property" in issue is one which, independently of the patent power and its exercise, must be examined for repugnance of the state law-authorized injunction to the property right of every citizen, arising under the Fifth and Fourteenth Amendments, to utilize fully his own talents and skills in pursuit of a lawful trade or calling.

In *Greene* v. *McElroy*, *supra*, note 73, this Court was faced with the question of whether arbitrary revocation of a security clearance without affording the injured person an opportunity to cross-examine his accusers or confront the adverse evidence, was a valid exercise of federal administrative power in the circumstance that the employee was seriously prejudiced in his ability to pursue his lawful calling and to earn his living. This Court, having due regard to "the right to hold specific private employment and to follow a chosen profession free from unreasonable governmental interference, [which] comes within the 'liberty' and 'property' concepts of the Fifth Amendment," [78] held the arbitrary administrative action to be unjustified.[79] The facts show that by the loss of the secret clearance on an arbitrary basis, Greene, an aeronautical engineer of considerable experience, was "formally barred from pursuit of many aspects of his profession, given the current dependence of most phases of the aircraft industry on Defense Department contracts, not only for production but for research and development work as well. . . ." 360 U.S. at 492, n. 21. While the present record contains no facts to show the precise injury to respondents if the permanent injunction issued, it is predictable that in this day of intensive technological specialization, persons like respondents who have devoted

[78] 360 U.S. at 492.

[79] In so doing the Court cited, *inter alia*, *Allgeyer*, *supra*, note 73, thus giving tacit recognition to the same right which arises under the Fourteenth Amendment and is hence binding on the states.

a considerable period of their lifetimes to research and development in a specific narrow field—here the production of the crystals which are the subject of the "trade secret property" in issue—would be injured if curtailed in their freedom to continue their studies in this area utilizing all of the skills necessarily nurtured during the period of their employment by petitioner.

If the federal government, with legitimate national security interests to protect, may not freely injure a citizen incident the pursuit of his lawful calling, logic demands that a *private* corporation having only its own individual financial "security" interests to protect, cannot freely erect barriers, in the guise of trade secret "property" or otherwise, to the pursuit by a former employee of his lawful calling. Particularly not, moreover, when the "property" is of a nature such that the right to a patent thereon has been forfeited, so that the public policy of the patent laws is subverted.

While the Fifth and Fourteenth Amendment property rights of every citizen in the use of his own skills and talents to pursue a lawful calling is often not *per se* mentioned in the cases, these rights seem to be the underlying rationale for the recognition of the concept of "free mobility of employees." [80]

At least some state courts have recognized the Fourteenth Amendment imperative,[81] but these state courts—

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[80] See generally in this connection *Wilson* v. *Clarke*, 470 F.2d 1218, 1221-2 (1 Cir. 1972); *Maloney* v. *E.I. duPont De Nemours & Co.*, 352 F.2d 936, 939 (D.C. Cir. 1965); *E.W. Bliss Co.* v. *Struthers-Dunn, Inc.*, 408 F.2d 1108 ,1112-13 (8 Cir. 1969); see also generally Blake, "Employer Agreements Not To Compete" 73 Harvard L.R. 265 (1960).

[81] E.g., *Levine* v. *E. A. Johnson & Co.*, 237 P.2d 309 (Ct. App. Cal. 1951); *Continental Car-Na-Var Corp.*, v. *Moseley*, 148 P.2d 9 (Sup. Ct. Cal. 1944); *Paraco, Inc.* v. *Owens*, 333 P.2d 360 (Ct. App. Cal. 1959).

and lower federal courts as well [82]—have most often unfortunately done so in context of an effort to "balance" the rights of the individual employee against the financial interests of the corporate employer.

The role of the Constitution in our scheme of government, coupled with elemental justice, requires that the basic Fifth and Fourteenth Amendment rights of the individual citizen be held paramount to the financial interests of corporate employers and hence in this case that the permanent injunction be refused on grounds of non-compliance with Fifth and Fourteenth Amendment guarantees.

E. TRADE SECRET "PROPERTY" IN TECHNOLOGY —A NECESSARY INCENTIVE TO CONDUCT RESEARCH??

Petitioner and its amici argue that the recognition of "property" rights in trade secrets by the states is necessary as an incentive to the investment of risk capital in research and development.[83]

This argument is not new. It is one of the most overworked cliches of apologists for drastically denigrated criteria for patentability. Notably, the same argument was presented over and over again to Congress at hearings held May 11, 12 and 13, 1971 before the Senate Subcommittee on Patents, Trademarks and Copyrights in an effort to justify relaxed patentability criteria, *de*

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[82] See the cases cited *supra*, note 80; see also e.g. *Winston Research Corp.* v. *Minnesota Mining & Mfg. Co.*, 350 F.2d 134 (9 Cir. 1965).

[83] This theme appears throughout the briefs filed on petitioner's behalf but is perhaps most markedly advanced by the Chamber of Commerce, the Manufacturing Chemists Association, Burroughs, Rohr, Optical Coating Laboratories, the Licensing Executives Society and the Association for the Advancement of Invention and Innovation.

facto removal of patents from the ambit of antitrust laws, and non-preemption by federal law of state contractual and trade secret concepts. It was made by some of the same amici and counsel who are now before the Court, including the Electronic Industries Association, an amicus for petitioner, by Edward J. Brenner, now Director of the Association for Advancement of Invention and Innovation, an amicus here; the American Patent Law Association, an amicus here and the Department of Commerce—which, albeit not an amicus in this case, is liberally quoted in the brief amicus of the Chamber of Commerce.

The same argument—in support of relaxed criteria for patentability—was earlier made at hearings before the Subcommittee on May 17 and 18, 1967 by Tom Arnold, counsel here signing the brief of the Licensing Executives Society, one of petitioner's amici. To date, the argument has not prompted legislative action.

Quite apart from the fact that the argument has become a very tired one, no evidence has ever been presented in any forum, judicial or legislative, to support it. Moreover, it seems contrary to the findings of those who *have* studied the problem. For example, "The Impact of the Patent System on Research", Study #11, Subcommittee on Patents, Trademarks and Copyrights, Committee on the Judiciary, United States Senate 85th Congress, 2nd Session (1958), by Professor Seymour Melman of Columbia University concluded that

> "There is nothing to indicate that the absence of the patent system would diminish the scope or character of scientific research in the universities. Indeed, insofar as patent pressures were removed from university scientists, this would probably strengthen the universities as producers of science and technology. *Moreover, business expenditures for research, in the estimate of this writer, would not be appre-*

ciably diminished by the elimination of opportunities for claiming patent rights. It is true that in the absence of patenting, some of the characteristics of individual research might be revised. Competitive pressures along product and production cost lines, that now impel the expansion of industrial research outlays would, however, continue to be operative." (p. 56).

Professor Melman particularly noted also that in 1940, Charles Kettering testified before the Temporary National Economic Committee and acknowledged that the sheer force of competition in the automobile industry would probably require General Motors, of which he was then Vice-President in Charge of Research, to continue to fully operate its industrial laboratories even if there were no patent laws. Professor Melman further showed in his investigation that industrial research budgets and scope of research activities at both the American Telephone and Telegraph Company and the IBM Corporation were programmed for *expansion* in the years immediately subsequent to the antitrust consent degrees entered against both firms in January 1956, requiring them "to make available to other firms many thousands of patents as well as related technical knowledge, either at reasonable rate of royalty or on a free basis altogether." (Id. p. 52). Professor Melman suggested that "the growth of product competition and competition for production cost reduction, account for the general expansion of the industrial research activity" (id. p. 53), and keep businesses under pressure to maintain and expand their research and development activities, regardless of property rights in information.

The September, 1973 report, "Barriers to Innovation in Industry: Opportunities for Public Policy Changes", prepared for the National Science Foundation by Arthur D. Little, Inc. and Industrial Research Institute, Inc. expresses the view that "innovation is impeded by two

types of barriers which are related to financial matters" (p. 20)—(1) lack of funds for development, new plant facilities and start up and (2) uncertainty about payout on invested funds. It indicates that the ideas proposed by the participants in the study—consisting of a carefully structured sample of twenty-four firms, covering a number of industrial sectors (p. 2)—suggested that the financial barriers to innovation might best be alleviated by one or more of (a) specially negotiated depreciation allowances, b) income tax reduction and (c) cost sharing on major developmental costs. Importantly, none of the firms suggested the use of decreased patentability standards or increased trade secret "property" protection as the solution to promoting investment in research and development.[84]

Comparison of this study with previous testimony before the Senate Patent, Trademark and Copyright Subcommittee (*supra*, p. 48) and the arguments of petitioners' amici here suggests that patent lawyers generally are inclined to express concern that strict observance of the exacting statutory criteria for patentable invention will adversely affect the level of investment in research and development; corporation executives who are not patent-oriented have no such fear.[85]

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[84] This study does show that the participants expressed concern about the numerous invalid patent grants, the high incidence of trivial "nuisance" patents, the non-exclusive licensing of government-held patents to industry and the ambiguity of the status of exclusive "field of use" licensing of patents. (Id. p. 19).

[85] Proof that the concern has no substance resides also in the fact that technologies in which no patents have been permitted have progressed as well or better than those where they have—e.g. computer programming and sexually reproduced plants (where no patents were permitted until the 1971 adoption of 84 Stat. 1558, § 131, the Plant Variety Protection Act).

CONCLUSION

The decision below is in all respects correct and should be affirmed.

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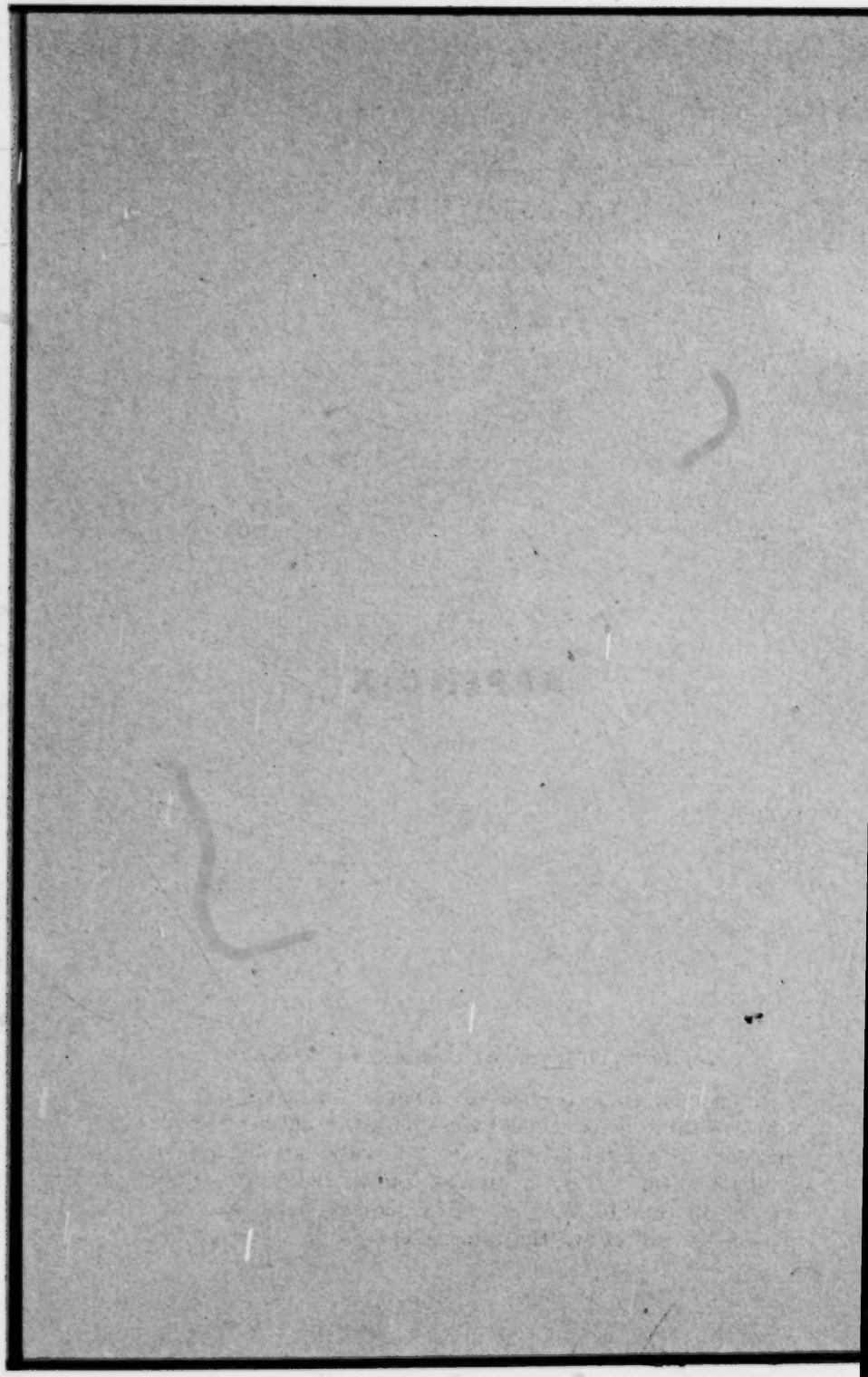
APPENDIX



THE CONSTITUTION

ARTICLE 1

SECTION 8, CLAUSES 3 AND 8

The Congress shall have Power . . .

* * * *

To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes;

* * * *

To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;

* * * *

ARTICLE VI, CLAUSE 2

* * * *

This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

* * * *

AMENDMENT V

Rights of Accused in Criminal Proceedings

No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury, except in cases arising in the land or naval forces, or in the Militia, when in actual service in time of War or public danger; nor shall any person be subject for the same offense to be twice put in

jeopardy of life or limb, nor shall be compelled in any criminal case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation.

AMENDMENT IX

The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people.

AMENDMENT X

The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.

AMENDMENT XIV

SECTION 1

All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.

* * * *

SECTION 5

The Congress shall have power to enforce, by appropriate legislation, the provisions of this article.

TITLE 35, U.S. CODE

§ 101. Inventions patentable

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

§ 102. Conditions for patentability; novelty and loss of right to patent

A person shall be entitled to a patent unless—

* * * *

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, ...

* * * *

THE CONSTITUTIONAL STANDARD OF INVENTION— THE TOUCHSTONE FOR PATENT REFORM

[Written pursuant to invitation of the University of Utah Law Review and shortly to be published therein]

By: Edward S. Irons
Mary Helen Sears

December, 1973

I. INTRODUCTION

Strong historical evidence, as well as often overlooked legislative and judicial precedents of long standing, and the totality of the Constitution itself, read in context, support the view that Congress lacks power to promulgate patent legislation for protection of alleged inventions of a nature such as to have arisen in the normal progression of the application and practice of ordinary skill in the art at the time they were made.

II. THE CONSTITUTIONAL PATENT CLAUSE PER SE

On its face, the constitutional patent clause authorizes Congress to grant exclusive rights to "inventors" *only* for a limited purpose—"to promote progress of science and useful arts." [1]

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[1] The clause in question—Article I, Section 8, clause 8—provides that "The Congress shall have Power . . . to promote Progress of Science and useful Arts, by securing for limited times to Authors and Inventors the exclusive right to their respective Writings and Discoveries".

Some writers have argued that this patent clause must be construed as a "balanced sentence" in which "science" is equated to "knowledge" and hence relates only to the power to protect the "writings" of "authors", while the patent power is confined to "discoveries" in the "useful arts". The argument is, in the main, a reaction to Mr. Justice Douglas' observation in *Great A&P Tea Co.* v. *Supermarket Equipment Corp.*, 340 U.S. 147, 156 (1951), that "[t]he Constitution never sanctioned the patenting of gadgets. Patents serve a higher end—the advancement of *science*." Its footless character is perhaps best exposed by reference to Section 3 of the Patent Act of 1793, a statute essentially contemporaneous with the Constitution, which provides, *inter alia*, for a "written description" of any invention sought to be patented "and of the manner of using . . . in such full, clear and exact terms as to . . . enable any person skilled in the *art or science* of which it is a branch or of which it is most nearly connected to make . . . and use the same. . . ." (1 Stat. 318 § 3). The same language appears in the Act of 1836, 5 Stat. 117 § 6.

[Footnote continued on page 6a]

Because patents may be granted *only* for that limited purpose, Congress may not indiscriminately provide for an award of exclusive rights in every "discovery" which human enterprise might unearth. Certain limits upon congressional power are well understood and have found virtually universal acceptance from the time of our very first federal patent statute in 1790.

For example, it is well settled that Congress could not constitutionally promulgate legislation conferring exclusive patent rights upon discoverers of subject matter not "new". Similarly, abstract thoughts and theories including mechanical and scientific principles and laws of nature, though constituting "discoveries" of the most fundamental sort, are not within the scope of congressional prerogative under the patent clause of the Constitution because exclusive appropriation, even for a limited period, would rob the public of access to elemental building blocks of creative thought and thereby stifle "progress in science and useful arts".[2] Consonant with these principles, every

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[1][Continued]

Nor is there substance to the further argument that, by asserting patentable inventions ought to "push back the frontiers of chemistry, physics and the like", Justices Black and Douglas in *A&P*, *supra*, postulated "an impossibly high standard of invention" advanced, *inter alia*, by Lutz in "The Constitution v. The Supreme Court Re Patents For Inventions", 13 U. of Pittsburgh L. R. 449 (1952). Any realist must acknowledge that the level of ordinary skill in technology at the time of the *A&P* case encompassed advanced concepts of "chemistry, physics and the like"—and has progressed to even more advanced ones today. As said in *Graham* v. *John Deere Co.*, 383 U.S. 1, 19 (1966), "[t]he ambit of applicable art in given fields of science has widened by disciplines unheard of half a century ago. . . . He who seeks to build a better mousetrap today has a long path to tread before reaching the Patent Office." It seems inescapable, moreover, that this constantly advancing level of ordinary skill in the art is at least one important part of the "progress" which the Constitution ordained that Congress should have power to *promote* by the promulgation of a patent system. See *infra* pp. 40a-41a.

[2] Were this not so, the realm of theory and abstract truth would soon be occupied by a relatively few monoplists and the community

patent statute enacted by Congress under the Constitution has been careful to define the inventions for which patents might be granted as products or processes (*i.e.* "arts") which are both new and useful.[3]

It is likewise settled, consistent with every patent statute so far enacted, that under the Constitution, the patent

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at large would be precluded from creative enterprise and endeavor. Phillips, *The Law of Patents for Inventions*, 97-98, 109-111 (1837); Curtis, *A Treatise on the Law of Patents for Useful Inventions in the United States of America*, 1st ed. (1849), 3, 56-63, 4th ed. (1873) 2, 156, 187; Robinson, *The Law of Patents for Useful Inventions* (1890) 190-198.

The Court has so recognized in at least *LeRoy* v. *Tatham*, 55 U.S. 156, 174-75 (1852); *O'Reilly* v. *Morse*, 56 U.S. 62, 112-113 (1853); *Burr* v. *Duryee*, 68 U.S. 531 (1864); *DeForest Radio Co.* v. *General Electric Co.*, 283 U.S. 664, 685-86 (1931); *Mackay Radio & Tel Co.* v. *Radio Corp. of America*, 306 U.S. 86, 94 (1939); *Funk Bros. Seed Co.* v. *Kalo Inoculant Co.*, 333 U.S. 127, 130 (1948). See also *Corning* v. *Burden*, 56 U.S. 282 (1853); *Fuller* v. *Yentzer*, 94 U.S. 288 (1877); *Cochrane* v. *Deener*, 94 U.S. 780, 787-88 (1877); *Tilghman* v. *Proctor*, 102 U.S. 708 (1881); *New Process Fermentation Co.* v. *Maus*, 122 U.S. 413, 427-28 (1887); *The Telephone Cases*, 126 U.S. 1, 533 (1888); *Risdon Iron & Locomotive Works* v. *Medart*, 158 U.S. 68, 76 (1895); *Westinghouse* v. *Boyden Power Brake Co.*, 167 U.S. 537 (1898); *Busch* v. *Jones*, 184 U.S. 598 (1902); *Expanded Metal Co.* v. *Bradford*, 214 U.S. 366, 381-5 (1909).

Most recently this fundamental limitation has been recognized and again implemented in *Gottschalk* v. *Benson*, 409 U.S. 63 (1972).

[3] Specifically, the Act of 1790, Section 1, defined that subject matter for which patents could be granted as "any useful art, manufacture, engine, machine, or device, or any improvement therein not before known or used. . . ." The language was slightly amended in Section 1 of the Act of 1793 to refer to "any new and useful art, machine, manufacture, or composition of matter, or any new and useful improvement in any art, machine, manufacture, or composition of matter. . . ." That language essentially unchanged was carried forward into Section 6 of the Act of 1836 and Section 24 of the Act of 1870. The latter, as R.S. 4886 (1874), remained in force to the adoption in 1952 of the present 35 U.S.C. 101 in which the word "process" has been substituted for the former word "art" with, according to the pertinent reviser's note, no change in meaning.

right must be confined to a limited time,[4] must be an exclusive right,[5] and may be secured only to inventors".[6]

The Supreme Court affirmatively in words, and Congress implicitly by its actions, have consistently discerned and given effect to a further constitutional requirement that an alleged invention, to merit patent protection, must exhibit a character which transcends that attributable to the exercise of ordinary skill in the art and, within its time frame, displays real ingenuity and creativity. The Court has often called this a requirement for "invention" explaining that if the subject matter sought to be patented is such that it would have naturally developed incident to the exercise of ordinary skill in the art—*i.e.* in the normal pursuit of the related trade or calling—then the work is that of a mechanic or other ordinary artisan and *not* that of an inventor.[7]

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[4] The actual span of the limited time—*i.e.* the term of the patent grant—has varied somewhat over the years from 1790 to the present. At some periods the statutes have also permitted renewal for a further limited time beyond the initial term of the grant. In no case, however, was a grant in perpetuity authorized. Detailed discussion of this parameter of the patent power is outside the ambit of this paper.

[5] Questions have been raised as to whether statutory compulsory licensing or working provisions would, if adopted, transgress the exclusivity of the patent right in derogation of the Constitution. Such questions, and exhaustive review of the scope of the right afforded under various patent statutes are outside the scope of this paper. Suffice it to say that under statutes in effect up to 1952, patents granted an exclusive right to make, use and sell the patented invention in the United States while since then, pursuant to 35 U.S.C. 154, the grant has been of "the right to exclude others from making, using or selling" the patented invention in this country.

[6] The broad question of what constitutes an "inventor" under the Constitution and its subsumed question—raised by various legislation proposed since 1966, including bills now pending—of whether assignees may constitutionally apply for patents is outside the scope of this paper, but will be treated in depth in a later paper.

[7] See, *e.g.*, *Phillips* v. *Detroit*, 111 U.S. 604, 607 (1884):

". . . It is plain therefore that the improvement described in the patent was *within the mental reach of anyone skilled in*

III. THE REQUIREMENT FOR INVENTION IN THIS COUNTRY

Congress early gave effect to the requirement, albeit without attempting to define its metes and bounds. Thus, the patent statutes in the periods from 1790-1793 and again from 1836-1952 specified that a patent might be granted even on concededly new and useful subject matter *only* if the examining body [8] deemed it to be "*sufficiently* useful and *important*".[9]

In the time span between 1793 and 1836 when a patent registration system was in effect and the adjudication of the patent right left solely to the courts, the controlling patent act in Section 2 thereof contained a specific limitation "that simply changing the form or the proportion of any machine, or composition of matter, in any degree shall not be deemed a discovery".[10] This particular provision was explicated by Phillips in 1837 as a "construction [which] would undoubtedly have been put upon the law without any such express exception". As Phillips teaches:

> ". . . It is indeed but the branch of a more general rule in giving a construction to the law, namely, that any change or modification of a machine or other patentable subject, which would be obvious to every person acquainted with the use of it, and which makes no material alteration in the mode and principles of its operation, and by which no material addition is made, is not a ground for claiming a patent. To per-

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the art to which the patent relates, and did not require invention to devise it, but only the use of ordinary judgment and mechanical skill. It involves merely the *skill of the workman* and *not the genius of the inventor*. . . ."

[8] In 1790-1793, this "body" was the Patent Board of which Thomas Jefferson was a member; from and after 1836, it was the Patent Office.

[9] See 1 Stat. 109 § 1; 5 Stat. 117 § 7; 16 Stat. 198 § 31; R.S. 4893.

[10] 1 Stat. 318 § 2.

> mit a formal, trivial change in an article to be patentable, or a reconstruction of it upon substantially the same principles, with unimportant differences in form or proportions, would defeat the beneficial operation of the statute and in effect repeal it. . . . " [11]

The present patent statute, enacted in 1952, recites the condition that "a patent may not be obtained . . . if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains." [12] As phrased, the statute simply expresses the same requirement for "invention" that the Court had long recognized the Constitution to require—and the Court has clearly so held in *Graham* v. *John Deere Co.*, 383 U.S. 1 (1966) and *Anderson's Black-Rock* v. *Pavement Salvage Co.*, 396 U.S. 57 (1969).[13]

In so stating, the Court was not, as some writers erroneously assert,[14] making a startling or novel declaration

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[11] Phillips, "The Law of Patents For Inventions", (1837) Section XII, pp. 125-26. Consistent with Phillips, the Supreme Court in *Reckendorfer* v. *Faber*, 92 U.S. 347, 354 (1876), emphasized that "[p]roof that there is no invention or discovery strikes at the root of the whole claim. The patent is based on an affirmative fact of which this is the direct negative. *It needed no statute to aid or justify this defense.*" To the same general effect are *Brown* v. *Piper*, 91 U.S. 44 (1875); *Mahn* v. *Harwood*, 112 U.S. 354 (1884); and *Slawson* v. *Grand Street R. R. Co.*, 107 U.S. 649, 652 (1883).

[12] 35 U.S.C. 103.

[13] The Court itself in *Peasce* v. *Mulford*, 102 U.S. 112, 118 (1880), had similarly characterized the requirement for invention saying, "[i]t must involve something more than what is *obvious* to persons skilled in the art to which it relates."

[14] *E.g.* Kimball, "An Analysis of Recent Supreme Court Assertions Regarding a Constitutional Standard of Invention", 1 APLA Quarterly Journal 204 (1973).

of constitutional law. *Per contra*, the Court had as early as 1885 decreed that the *Constitution* requires subject matter, to be patentable, to transcend the ordinary level of skill in the art.[15]

Moreover, the Court's view that the "requirement for invention" is constitutionally ordained was foreshadowed in its early patent decisions. For example, in *Pennock* v. *Dialogue*, 27 U.S. 1, 19 (1829), the inventor's work was denominated as "genius", consistent with established parlance of centuries in which "genius" had a meaning beyond that of *ordinary skill*. In *Pennock*, moreover, the primary *public* purpose of our patent system was first emphasized by the Court.[16] This primary public purpose

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[15] See *Thompson* v. *Boisselier*, 114 U.S. 1, 11 (1885), in which the Court stated:

> ". . . This court, however, has repeatedly held that, under the Constitution and the Acts of Congress, a person, to be entitled to a patent, must have invented or discovered some new and useful art, machine, manufacture or composition of matter, or some new and useful improvement thereof, and that 'it is not enough that a thing shall be new, in the sense that in the shape or form in which it is produced it shall not have been before known, and that it shall be useful, *but it must, under the Constitution, and the Statute, amount to an invention or discovery.*' "

To the same effect, in *Hollister* v. *Benedict Mfg. Co.*, 113 U.S. 59, 73 (1885), the Court, in finding an alleged invention unpatentable, stated:

> ". . . It is but the display of the expected skill of the calling, and involves only the exercise of the ordinary faculties of reasoning upon the materials supplied by a special knowledge, and the facility of manipulation which results from its habitual and intelligent practice; and is in no sense *the creative work of that inventive faculty which it is the purpose of the Constitution and the patent laws to encourage and reward.*"

See also, *Hill* v. *Wooster*, 132 U.S. 693, 700 (1890); *Cuno Engineering Corp.* v. *Automatic Devices Corp.*, 314 U.S. 84, 91 (1941); and the much maligned, but obviously correct, concurring opinion of Justice Douglas in *A&P*, *supra*, note 1, p. 4a, 340 U.S. 156.

[16] Specifically, the Court said:

> ". . . While one great object [of our patent laws] was, by hold-

was further explicated four years later in *Shaw* v. *Cooper*, 32 U.S. 290, 318 (1833), as follows:

> "The patent law was designed for the public benefit as well as for the benefit of inventors. For a valuable invention, the public, on the inventor's complying with certain conditions, give him for a limited period the profits arising from the sale of the thing invented. This holds out an inducement for the exercise of genius and skill in making discoveries which may be useful to society, and profitable to the discoverer. *But it was not the intention of this law to take from the public that of which they were fairly in possession.*
>
> "In the progress of society, the range of discoveries in the mechanic arts, in science,[17] and in all things which promote the public convenience, as a matter of course, will be enlarged. This results from the aggregation of mind and the diversity of talents and pursuits, which exist in every intelligent community. *And it would be extremely impolitic to retard or embarrass this advance, by withdrawing from the public any useful invention or art, and making it a subject of private monopoly.* Against this consequence, the Legislature have carefully guarded in the laws they have passed on the subject."

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ing out a reasonable reward to inventors, and giving them an exclusive right to their inventions for a limited period, to stimulate the efforts of genius; the main object was 'to promote the progress of science and the useful arts;' . . ."

This constitutionally-mandated primary public purpose of the patent system has been repeatedly emphasized by the Court, *inter alia*, in *Kendall* v. *Winsor*, 62 U.S. 322 (1859); *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917); *Mercoid Corp.* v. *Mid-Continent Invest. Co.*, 320 U.S. 661 (1944); *Lear* v. *Adkins*, 395 U.S. 653 (1969); and most recently, *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation*, 402 U.S. 313 (1971).

[17] See note 1, *supra*. The 1833 Court, like Justices Black and Douglas, understood that the Constitution authorized a patent system to promote *both* "science" and the useful arts.

Notwithstanding the clarity and consistency of the Court's pronouncements, many patent practitioners, especially over the last twenty-five to thirty years, have engaged in vigorous challenge to the "requirement for invention",[18] insisting that it lacks historical or constitutional

[18] At least one segment of the patent bar professes an inability to understand the "requirement for invention" because of its alleged imprecision. See, *inter alia*, Rich, "Congressional Intent—Or, Who Wrote the Patent Act of 1952", Patent Procurement and Exploitation, pp. 61-78 (1963); Rich, "The Principles of Patentability", 28 George Washington L.R. 393 (1960); Rich, "The Vague Concept of 'Invention' As Replaced By Section 103 of the 1952 Act", 8 *Idea* 136 (1964).

The same group also professes to discern a different and more precise meaning in the requirement of 35 U.S.C. 103 for "nonobviousness", despite the Supreme Court's contrary holding in *Graham, supra*, note 1, and *Anderson's Black-Rock, supra*, p. 10a.

Even without the Court's ruling, however, the controversy between "invention" and "nonobviousness" would appear to be a purely semantic one. The Court in *Graham, supra*, said that "[t]he emphasis on nonobviousness is one of inquiry, not quality [as with "invention"], and, as such, comports with the constitutional strictures (383 U.S. at 17), emphasizing that this did not change the test. Thus, ". . . it bears repeating that we find no change in the general strictness with which the overall test is to be applied. . . . The standard has remained invariable in this Court." (383 U.S. at 19).

Under any label, this standard is equally objective with, and no more imprecise than, that of the "ordinary reasonable man" so prominent in the law of torts. In *Graham*, the Court also commented that the difficulties of applying the test "are comparable to those encountered daily by the courts in such frames as negligence and scienter, and should be amenable to a case-by-case development". (383 U.S. at 18). Dispassionately viewed, it seems clear that the alleged imprecision is more often the result of application or misapplication of the standard to specific factual situations in particular cases, or the consequence of lifting a portion of the language of a decision out of context, than it is of any true variance or incomprehensibility in the standard itself. Other seeming fluctuations in the standard of invention are not that at all, but are attributable to the continuing rise in the level of ordinary skill in the art, which necessarily disqualifies from *present* patent protection many alleged inventions which would have been, or were, eligible to be patented at an earlier period when the level of ordinary skill was much lower. See note 1, *supra*.

imperative and hence that Congress may change its focus or even obviate it at will.[19]

In general, the challengers have ignored or failed to appreciate the need to read the Patent Clause in context with the balance of the Constitution or have overlooked significant aspects of relevant European and American history.

IV. EUROPEAN ANTECEDENTS

Numerous writers have traced in detail the emergence of patent systems in England and on the Continent.[20] It is generally acknowledged that the term "patents" was originally generic to exclusive privileges of various kinds, including patents for true inventions, importation franchises and even monopolies on old products.[21]

Initially patents were granted randomly and individually by special law or grant rather than pursuant to an established administrative or statutory scheme.[22]

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[19] See, *e.g.*, Lutz, *supra*, note 1; Kimball, *supra*, note 14; Fox, "Monopolies and Patents" (1947); Siedel, "The Constitution And A Standard of Patentability", 48 J. Pat. Off. Soc'y 5 (1966); Posnack, "The Continued Erosion of Our Patent System", 52 J. Pat. Off. Soc'y 255 (1970).

[20] See, *inter alia*, Mandich, "Venetian Patents", 30 J. Pat. Off. Soc'y 166 (1948); Frederico, "Origin and Early History of Patents", 11 J. Pat. Off. Soc'y 292 (1927); Bugbee, "Genesis of American Patent and Copyright Law", Washington Public Affairs Press (1967), pp. 12-48; Fox, "Monopolies and Patents", Toronto (1947), pp. 19-189; see also, Prager. "A History of Intellectual Property from 1545 to 1787", 26 J. Pat. Off. Soc'y 711 (1944); Prager, "The Early Growth and Influence of Intellectual Property", 34 J. Pat. Off. Soc'y 196 (1952).

[21] Some specific examples of different kinds of exclusive privileges granted in the Italian city states and in England before 1500 and, later, on the Continent in countries other than Italy, appear, *inter alia*, in Bugbee, *supra*, note 20; Federico, *supra*, note 20; and the two Prager articles, *supra*, note 20.

[22] There is some evidence of the existence of a Venetian patent law in the early part of the 15th Century specifically directed to-

The system of granting exclusive rights to individuals, whether for an invention *per se* or the importation of a new product,[23] seems to have gained headway in medieval times as an inducement to encourage foreign craftsmen to settle in a particular country and teach new technology to its subjects. Absent such an inducement, foreign craftsmen would have been precluded by existing local guild monopolies from practicing any aspects of their arts in a new country.[24]

The guild monopolies were of ancient origin, having evolved from the Third Century when Roman emperors utilized the sale of monopoly concessions in industry and trade as revenue-raising measures.[25] By the Middle Ages

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ward inventions in the field of machines and processes for speeding up and improving silk making. See Prager, "The Early Growth and Influence of Intellectual Property", *supra*, note 20, at pp. 130-31. The City-State of Venice certainly pioneered in the establishment of a formal patent system as evidenced by the statute adopted in 1474 discussed *infra*, p. 17a.

[23] For many years, the word "invention" embraced importations. See note 29, *infra*. For clarity it is utilized herein in its modern sense to refer only to original creations.

[24] For example, Edward III in the Thirteenth Century encouraged such new industries as the manufacture of worsted cloth from wool by a patent to Flemish immigrants. As late as the time of Elizabeth I, foreign workmen experienced in various aspects of the art of glassmaking were granted patents as an inducement to relocation in England and teaching of these arts to English subjects.

[25] Monopoly practices of the Roman emperors in the 3rd and 4th Centuries resulted in heavy oppression of the common people, and consequently in so much internal agitation and strife, that Zeno, Emperor of the Eastern Roman Empire, in 483 outlawed some existing and all future monopoly awards. The same statute was later included by Justinian I in his Code. See Mund, "Monopoly—A History and Theory", Princeton University Press (1932) at 6-7.

The Roman law, however, permitted many established commercial monopolies to subsist throughout and these monopolies in the form of guilds survived the fall of Rome—perhaps because of their relative stability in the chaotic political situation which followed. Mund points out that during the Middle Ages up to at

these guilds had complete economic control of every aspect of commerce and the arts. They regulated strictly every aspect of price, cost and manufacture, as well as worker education and security. They were empowered to enforce their broad subject matter monopolies rigorously within their geographic ambits *inter alia* by arbitrary search of non-members' premises and peremptory confiscation of unauthorized goods. The guilds were, in general, not interested in promoting technological progress, whether through introduction of new inventions or otherwise. The impetus within the guilds was instead for economic stabilization and stagnation, *inter alia*, by suppression and restraint of inventions that infringed or might infringe guild monopolies.[26]

It seems indisputable that as originally conceived, patents, whether for inventions or for importations, had a triple purpose: first, to encourage new manufactures in the realm, thereby promoting commerce; second, to educate the interested people of the realm in new technology, thereby raising the level of their ordinary skill and promoting further inventions; and third, to afford inventors a right, otherwise belonging only to the guilds, to profit by commercial practice of their inventions. The guilds, as repositories of and autocrats over technology reflecting the

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least the 12th Century, the term "monopoly" was not applied to the guilds or the equally monopolistic agricultural manors even though it certainly fit both. (*Id.* at pp. 8-10).

[26] Like all generalities this one had its exceptions, many of which are pointed out in the books by Bugbee and Fox, *supra*, note 20. It is a matter of historical record, however, that the guilds often brought to bear very heavy pressures to restrain technological progress. For example, reference is made by Frederico, *supra*, note 20, at 298, to the refusal in England in the reign of Elizabeth I of a patent on a stocking knitting machine characterized as "one of the most original and striking inventions of the age" because of guild objections that many would be forced out of work if the machine were put into use. See also, Fox, *supra*, note 20, at 74.

prevailing level of ordinary skill in the art, particularly opposed the grant of individual monopolies—*i.e.* "patents" —either for new inventions or newly imported manufactures where the effect was to inhibit guild members in the exercise of the ordinary skills of which they were already in possession.[27]

The formal patent statute adopted by the Venetian Republic in 1474 is consistent with these principles. While affirmatively recognizing the need to encourage the work of "men of great genius apt to invent and discover ingenious devices", it was careful to preserve the rights of the guilds and minimize the invasion of their prerogatives by requiring that the exclusive patent right be limited to a term of ten years and be awarded only for "any new *and ingenious* device . . . not previously made in our Commonwealth . . . reduced to perfection so that it can be used and operated." [28]

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[27] Sir Edward Coke defined monopoly as "an institution or allowance by the King, by his grant, commission, or otherwise, to any person or persons, bodies politic or corporate; of or for the sole buying, selling, making, working or using anything; whereby any person or persons, bodies politic or corporate, are sought to be restrained of any freedom or liberty that they had before, or hindered in their lawful trade". Institutes of the Laws of England (London 1797), III, p. 181 (c. 85); III (1669 ed.) Chap. LXXV, p. 181.

Of course, the people in Medieval and Renaissance Europe, including England, had very little real "freedom or liberty" at any time "before" the guilds and similar collective monopolies, such as agricultural manors, were established. Virtually every man had some "lawful trade" within the framework of the guild or manor, however; hence, "monopoly" repugnant to its pursuit was considered "odious".

[28] The *full* text of this Venetian statute is reproduced in Bugbee, *supra*, note 20 at pp. 22-23. Bugbee acknowledges in a footnote the existence of a different translation of the same statute in Frumkin, "The Early History of Patents for Invention", LVIV (1947-48), p. 27. The critical wording of the original Italian "nuovo et ingegnoso artificio" is also reproduced by Prager in "The Early Growth and Influence of Intellectual Property", *supra*, note 20 at p. 139.

Pursuant to the statute, the General Welfare Board of the City of Venice engaged in an actual inspection ("experientia") of each alleged invention in operation before any patent was awarded. It is important that the Venetian statute *could* have provided for the award of patent rights on the basis of a device that was simply "new"; the fact that it did not do so reflects the recognition in Venetian society of a need to balance the guilds' interest in protecting their members' continued right to the full exercise of ordinary judgment and skill in the art with the realm's desire to encourage both commercial and intellectual progress and its resolution—to reward *only* inventions exhibiting ingenuity *above* the level of ordinary skill in the art.[29]

The English patent system, which evolved concurrently with that of Venice over several centuries from approximately the time of Edward III, was parallel in many re-

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[29] It is important to recognize that as of 1474 there was no way in which new technology could be communicated to the public unless the article or process involved were put into practical use in commercial channels. The art of printing was then in its earliest infancy, and published material was expensive and scarce. Besides, writers of that era did not concern themselves with subjects so mundane as technology.

It was several centuries before the idea of a written specification describing the invention such as United States patent law has always required (*vide* present 35 U.S.C. 112) was even a feasible alternative, as disclosure of an invention, to the actual construction or practice of the alleged invention in commerce. The connection between the unavailability of publications disclosing new technology up to the 18th Century or even later and the early practice in England and on the Continent of classifying importers as "inventors" has been recognized, *inter alia*, by Prager in "Standards of Patentable Inventions from 1474 to 1952", 20 U. Chicago L.R. 69 (1952) and in "A History of Intellectual Property from 1545 to 1787", *supra*, note 20 at p. 139. In the former work, Prager emphasized "[t]hat early English practice identified importers with inventors does not show any lack of interest in the merits of the items invented or imported. It only shows that, before the advent of technical instruction in print, disclosure of new technology required actual commercial introduction and use." (p. 71).

spects to that of Venice, even though not governed by any formal statutory or administrative practice until much later than that established pursuant to the 1474 Venetian statute. Patents came particularly into prominence during the reign of Elizabeth I who utilized them not only as a tool for promoting commercial and intellectual progress, but also as an instrument of royal favor—a circumstance which led to numerous abuses because of indiscriminate award of monopolies in old commodities ranging from such relative frivolities as playing cards to such necessities as salt.[30] The *validity* of patents in this period, however, was within the province of the English courts. These courts applied criteria essentially the same as those mandated by the Venetian statute of 1474 and those now demanded by our Constitution.

Thus, history records that prior to the 1624 Statute of Monopolies, English courts regularly invalidated patents granted for subject matter admittedly novel, but well within the prevailing level of ordinary skill of the art.

In one such case, *Matthey's Patent*, granted in 1571 for a particular type of knife handle, was challenged by the cutlers' guild on the ground that "they did use to make knives before, though not with such hafts, that such a light difference or invention should be no cause to restrain them. . . ." [31] This resulted in a decision that "he [Matthey] could never have benefit of his patent although he labored very greatly therein."

Another such case involved *Hasting's Patent* for a certain kind of cloth, granted in 1569, but refused enforcement against a guild which demonstrated that its mem-

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[30] See especially Fox, *supra*, note 20.

[31] See Prager, "Standards of Patentable Invention From 1474 to 1952", *supra*, note 29 at pp. 71-72. The same patent case is also mentioned by Frederico, *supra*, note 20 at p. 297, but the inventor "Matthey" is referred to as "Richard Matthew".

bers had, prior to the patent, made cloth "very like to" (albeit not the same as) that covered by the patent.[32]

Still another case involved *Bircot's Patent*, apparently granted prior to 1600,[33] which was for a new method of smelting. It resulted in a court decree of invalidity based on evidence from which it was concluded that the subject matter disclosed "was but to put a new button to an old coat, and it is much easier to add than to invent." [34] These early English cases are particularly remarkable in at least two respects. In the first place, the apparently spontaneous selection of a standard of invention above the ordinary level of skill in the art independently of the same selection in Venice is persuasive evidence of a recognition that society could not function satisfactorily if patents were granted which interfered with the normal exercise by the guilds of ordinary judgment and skill in their respective arts. In the second place, the essentiality of this requirement to the proper functioning of society is the more marked in view of the fact that these cases were decided prior to 1624 when the Statute of Monopolies was enacted and hence at a time when the right of the Crown to grant patents arbitrarily and even capriciously enjoyed full sway.[35]

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[32] See Prager, *id.* at p. 72; see also Hulme, "History of the Patent System", 12 Law Quarterly Review 141, 149-50 (1896).

[33] Prager, *id.* at p. 72, says that this case was reported in the Institutes of Sir Edward Coke first published shortly after 1600.

[34] The quotation is from 1 Web. Pat. Cases 31, note (p) (1844).

[35] The abuses of the patent power by the Crown prior to the Statute of Monopolies are well known and have been extensively documented by many writers, including Bugbee and Fox, *supra*, note 20. It is important to recognize that the Statute curbed only some monopolies. It left intact not only patents for inventions (including importations) but also "patents", charters, and franchises previously granted which conveyed exclusive trading and manufacturing privileges to guilds, corporations and similar groups. The monopolies abolished by the statute, albeit constituting the ones at that time most bitterly resented by the common people, constituted a

After the adoption of the Statute of Monopolies, the English courts continued to require inventive merit as a prerequisite to the enforcement of patents. In particular, the principle of *Bircot's Patent* that "it is much easier to add than to invent" was so strictly observed that English courts for many years refused to give effect to "improvement" patents, taking the position that only so-called "basic manufactures" *could* exhibit sufficient ingenuity to constitute invention and hence merit exclusive patent protection.[36]

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relatively narrow class of "patents" granted to royal favorites on old commodities such as salt and playing cards (*supra*, p. 19a).

It is also of interest that the statutory abolition of the Crown's power to grant arbitrary "patent" monopolies was initially more formal than real and that the actual grant of such "odious" monopolies by the Crown continued for about 50 years after 1624 and gave rise to intense internal strife, including a brief civil war.

[36] According to Prager, "Standards of Patentable Inventions From 1474 to 1952", *supra*, note 29 at p. 72, this was the position of the English courts up to the 1776 case of *Morris* v. *Bransom* when a more lenient view of "inventive merit" was adopted. The first Supreme Court patent case, *Evans* v. *Eaton*, 16 U.S. 454 (1818), established that, while improvement patents could be given effect in this country, it was incumbent on their inventors to clearly delineate the extent of the improvement and distinguish it from the thing improved. See also in this regard, the later decisions about the same patent in the same and a related case—*to wit*, *Evans* v. *Eaton*, 20 U.S. 356 (1822), and *Evans* v. *Hettich*, 20 U.S. 453 (1822).

The failure of the English system to examine for "inventive merit" prior to the grant of a patent persisted from before the time of Elizabeth I to 1949 when a statute—the Patents and Designs Act (1949) § 14(1)—was adopted which required the British Patent Office and, implicitly, its adjunct appellate courts, to deal with questions of invention raised by third parties in opposition to the grant of a patent. Even today, however, there is no *ex parte* examination by the British Patent Office for "invention", though lack of inventive merit remains a ground for invalidation of patents in the British courts. See generally, Meinhardt, "Inventions Patents and Monopoly", London, 1946 at p. 45.

V. AMERICAN COLONIAL ANTECEDENTS

The colonization of the United States was initiated essentially contemporaneous with the 1624 Statute of Monopolies [37] and at a time during which economic regimentation in England was at an exceptionally high level. As one writer has put it:

> "The economic system of restriction and regulation reached its peak in England during the seventeenth century. Most of the old restraints persisted and with the growth of trade many new ones developed. The corporate towns and guilds continued to restrict the admission of new members and became, in the words of a contemporary writer, 'oppressive oligarchies, excluding or discouraging the English subjects from trading in our greatest and best situated towns where the markets are.' Merchants began to join their stocks of goods, and to share the profits and losses, instead of trading individually. Such companies were known as joint stock companies and received exclusive charters from the king. Further restrictions on trade were imposed by an extensive system of custom duties and by the Navigation Acts of 1651 and 1660. The Navigation Acts obliged English subjects to use English ships for all goods imported from, or exported to, Asia, Africa or America; and to use English ships, or ships of the country which produced the goods, for all things imported from, or exported to, European ports. Never before had English trade been circumscribed with so many regulations." [38]

The settlers who emigrated from England and Continental European [39] countries to the American colonies,

[37] Specifically, the settlement of Virginia began in 1608; that of Massachusetts in 1620, and that of other colonies progressively later in the Seventeenth Century.

[38] Mund, *supra*, note 25 at p. 23.

[39] Mund, *id.* at p. 28 *et seq.*, shows at length that economic regi-

albeit of widely diverse economic, social and political backgrounds, had each in their own separate ways had experience with this prevailing economic system of monopolies. Nothwithstanding their diverse interests, these settlers were preponderantly united in a desire for greater individual freedom and less regimentation and in a willingness to forego personal comforts in order to attain it.

In particular, the colonists believed that every man should have the right to exploit his own talents without arbitrary interference from or regulation by exclusive corporations, trading companies and the like.[40] Hand-in-hand with this notion of individual personal liberty went a deep-rooted colonial aversion to other monopolistic practices.[41]

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mentation similar to that in England was also then rife throughout Western Europe.

[40] Exclusive corporations evolved in England from the guilds and were chartered during the 17th and 18th centuries. These exclusive corporations retained the special privileges and monopoly powers with which they had been endowed at their original creation as well as those special privileges with which they were later invested by English law. Thus, for example, under the 1558 Statute of Apprenticeship, eligibility to practice a trade was severely restricted because satisfactory completion of a seven-year apprenticeship, which was a prerequisite, could be achieved only by those to whom the relevant guild gave full approbation.

Mund, *supra*, note 25, discusses this and other incidents of European mercantilism at pp. 28 *et seq.* and demonstrates how English and French economists in the 18th Century were increasingly inspired to preach repudiation of this monopolistically-oriented economic regimentation in a favor of a *laissez-faire* economy.

[41] Legal writers and historians tend to sentimentalize the "rights of Englishmen" and thereby to give the impression that personal liberty was in the English tradition at least subsequent to the Magna Charta. While it is true that "[t]he roots of American freedom are . . . to be found in English constitutional history", Schwartz "The Bill of Rights", Vol. 1 (1971) p. 1, it is also true that these English rights have throughout history been far more often honored in the breach than in the observance. In the 17th and 18th centuries their exercise was much inhibited by the existing rampant economic monopolization and, at times, also by arbitrary

These ideas were especially important in the later formulation of the Constitution, including the Patent Clause.

Strictly speaking, each of the English colonies in America operated under a charter granted as a matter of privilege and grace by the English Crown. All these charters, moreover, were similar to existing charters in England of trading companies, guilds, exclusive corporations, and the like and were viewed in England as full equivalents of such charters, subject to amendment by Parliament at any time. However, these charters authorized the establishment of local governments—and the settlers early proceeded to exercise this authority and to establish their own laws guaranteeing individual rights and liberties. These laws took cognizance of every man's right to use his talents and skills in pursuit of a trade. Moreover, labor and manpower being in short supply, this right was exercised to the fullest by the settlers as a matter of sheer necessity.

The Colony of Massachusetts was a leader in the enactment in 1641 of a code of laws, the Body of Liberties, designed, according to the Journal of Governor John Winthorp, to guarantee "such liberties, immunities and priviledges as humanities, Civilities and Christianities call for as due to every man in his place and proportion."[42] One of its significant provisions was that,

"No monopolies shall be granted or allowed amongst

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restrictions imposed by the sovereign. Moreover, these rights have always been, at best, contractual rights arrived at as an accommodation between people and sovereign.

Even today English liberties exist at the sufferance of Parliament and are subject to change by duly enacted statutes. By contrast, individual liberties in the United States derive directly from the sovereignty of the people themselves under the authority of the written Constitution and hence constitute restraints upon congressional power.

[42] See Schwartz, *supra*, note 40 at p. 70.

> us, but of such new Inventions that are profitable to the Countrie, and that for a short time." [43]

A very similar provision virtually identically worded [44] was embodied in a Connecticut statute of 1672. In both colonies, the years preceding the Revolution saw a handful, in the order of ten or less,[45] patents each granted by special legislative act for inventions "profitable to the Countrie".

While it is unclear whether these patents were for original creations or for importations, it seems certain that no "new invention" *could* have been considered "profitable to the Country" if it had interfered with the colonists' exercise of their own ordinary skills and judgment. Particularly so, moreover, when the rigors of the mere struggle for continued existence at that time are recalled and considered in context with the deep concern for individual liberties.

Also notable in its obvious influence upon the later constitutional Patent Clause is the "Frame of Government" written by William Penn and adopted by the Colony of Pennsylvania in 1682. This document charged the Governor and Provincial Council with the duty to "erect and order all public schools, and encourage and reward the

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[43] *Id.* at p. 73. The Body of Liberties was also careful to provide for freedom of speech, due process of law, protection of life, liberty and property, and even freedom of access to government records.

[44] Specially, the Connecticut statute said:

> "It is ordered; That there shall be no monopolies granted or allowed amongst us, but of such new inventions as shall be judged profitable for the country, and that for such time as the General Court shall judge meet". Bugbee, *supra*, note 20 at p. 69.

[45] Bugbee, *id.* at pp. 57-83, catalogs specific colonial patent grants and recites many of their provisions.

authors of useful sciences and laudable inventions in said Province".[46]

In another provision of the Frame, it was ordained that the Provincial Council should encompass four standing committees including, *inter alia*, one for trade and treasury to "regulate all trade and commerce, according to law, encourage manufacture and country growth and defray the public charge of the province" [47] and one for "manners, education and the arts" charged with duties including the training of youth in "useful knowledge and arts".[48] From the language of these provisions and the obvious association of the reward for laudable invention with education rather than commerce, it seems clear that Penn early visualized patents for invention as primarily educational in character, calculated to induce inventors to instruct the community in new inventions for the common good.[49]

Penn's co-religionist and fellow Pennsylvanian, Benjamin Franklin, appears to have subscribed fully to this view. Franklin noted in his Autobiography that after his own invention of the "Franklin stove", the Governor of Pennsylvania offered him a patent which he declined because "as we enjoy great advantages from the inventions of others, we should be glad of an opportunity to serve others by any invention of ours, and this we should do freely and generously." [50]

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[46] Schwartz, *supra*, note 40 at p. 136.

[47] *Id.* at 136-37.

[48] *Id.* at p. 137.

[49] This thinking runs counter to the primary function of patents as theretofore utilized throughout Europe, including England, as a tool for promoting commerce.

[50] "Benjamin Franklin's Autobiographical Writings", edited by Van Doren (1945) at p. 721. The Franklin stove with small changes was imported into England and patented there by an English subject who, according to Franklin, "made . . . a little fortune by it". *Ibid.* Franklin likewise did not patent any of his other inventions, such as the lightning rod, but simply gave them to society.

The Colony of South Carolina was also active prior to the Revolution in the granting of patents and must be presumed to have influenced the constitutional Patent Clause. This Colony came closest to establishing a *system* for the granting of patents by establishing, for a time, a committee which was charged with reviewing those devices and processes on which petitions for patent had been addressed to the legislature. This committee recognized that patent protection ought not to be awarded indiscriminately for a device or process that would or might inhibit the pursuit of ordinary skill. In one of its recommendations, the committee expressed the "Opinion that all possible encouragement should be given to the People of a mechanical *Genius*".[51] There is also a record of at least one refusal by this committee of a patent in an instance where the applicant neither provided a model of his device nor was able to give an adequate description of it.[52]

Other relatively isolated instances of colonial patent interest or activity may be found,[53] but it seems safe to say that they are of little historical and philosophical significance. There are probably many reasons for this. The continued economic dominance by English corporate and guild monopoly of colonial trade and commerce did not create a particularly auspicious climate for originality and invention. Moreover, many of the people were for long years so fully occupied with survival itself that there was relatively little time for such pursuits. And since a patent was not, as it had been in Europe under the guilds, necessary to permit a man to practice his own invention, some inventors probably proceeded just like Benjamin Franklin did, to practice their inventions freely and dedicate them to society. After all, the investment in time and money needed to successfully petition a legislature for a patent

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[51] Bugbee, *supra*, note 20 at p. 79.

[52] *Id.* at p. 80.

[53] See Bugbee, *supra*, note 20 at pp. 57-83.

was considerable and the incentive to make this investment was lessened when the patent was not a necessary license to use the invention.

English economic monopolies, which were always a paramount object of colonial resentment, led eventually to the Revolution. Every school child is familiar with the "monopoly on tea that sparked the Revolution" [54] and with the excesses of the Stamp Act and the Townshend Acts. Less well known is the "list of infringements and violations of rights" drawn up by the Boston Town Meeting in 1772 which complained, *inter alia*, that the English action incident:

> "The restraining us from erecting Stilling Mills for manufacturing our Iron the natural produce of this Country, *Is an infringement of that right with which God and nature have invested us, to make use of our skill and industry in procuring the necessaries and conveniences of life.* And we look upon the restraint laid upon the manufacture and transportation of Hatts to be altogether unreasonable and grievous. . . ." (Emphasis added).[55]

It remained for the colonists to find a way of giving real and practical effect to the rights "invested" by "God and nature" including that "to make use of our skill and industry in procuring the necessaries and conveniences of life"—and every citizen knows the story of the Revolution and the Declaration of Independence.

VI. SOME CONCEPTS WHICH DEMONSTRATE THE CONTEMPORANEOUS MEANING OF THE PATENT CLAUSE

The Declaration of Independence by the union of the original thirteen colonies fundamentally proclaims the sub-

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[54] *Graham* v. *John Deere Co.*, *supra*, note 1 at p. 7.

[55] Schwartz, *supra*, note 40 at p. 209.

servience of government power to the consent of the governed and the "unalienable rights" of every citizen to "life, liberty and the pursuit of happiness". Similar proclamations were essentially concurrently made as declarations or constitutions in virtually every one of the individual former colonies.[56] Of particular interest here are provisions contained in two of these declarations concerning monopoly. Specially, the Maryland Declaration of Rights, approved November 3, 1776, decreed "that monopolies are odious, contrary to the spirit of a free government, and the principles of commerce; and ought not to be suffered." [57] In similar vein, the North Carolina Declaration of Rights, adopted December 17, 1776, specified "that perpetuities and monopolies are contrary to the genius of a free State, and ought not to be allowed." [58]

It seems safe to say that the years immediately following the Revolution and preceding the framing and adoption of the Constitution were a time of economic and political experimentation in which the new country, as a loose union of states, groped toward a workable form of government embodying the individual rights to which the people pronounced themselves entitled. The initial effort to establish a form of central government, the Articles of Confederation, was ineffectual and weak in many respects including markedly in its failure to make provision for the orderly conduct of interstate and foreign commerce. Perhaps because of the intense aversion of the people to economic monopoly, there is no indication of any consideration, incident to the adoption of the Articles of Confederation, of the establishment of a patent system. Some of the States did grant some patents during this period, primarily by special legislative act. Particularly

[56] See generally, Schwartz, *supra*, note 40, which quotes the full text of each.

[57] Schwartz, *supra*, note 40 at p. 284.

[58] *Id.* at p. 288.

active were Pennsylvania, which awarded grants containing provisions which appear to have been much influenced by the earlier thinking of William Penn,[59] and South Carolina, which in 1784 enacted a formal patent and copyright statute. At least one patent was granted in each of Georgia, Maryland, Virginia, Delaware, New Jersey, New York, Connecticut, and New Hampshire as well.[60] Quite commonly, these early state grants recited in a preamble the objective of encouraging and rewarding "men of learning and genius" [61] or "ingenious men".[62] The striking similarity of language of such grants to that of the Venetian statute of 1474 cannot be regarded as imitative, since even the most learned Americans of the time seem to have been unaware of prior patent systems except in England.[63] Hence, it seems reasonable to attribute the parallelism of language to a certain parallelism of concept and specifically to the notion that an invention, to

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[59] *Supra*, p. 25a-26a.

[60] See Bugbee, *supra*, note 20 at pp. 84-103, for a detailed catalog of these state patents; see also, *inter alia*, Federico, "State Patents", 15 J.Pat.Off. Soc'y 166 (1931); Prager, "The Steamboat Pioneers Before the Founding Fathers", 38 J.Pat.Off. Soc'y 486 (1955); Prager, "The Steamboat Interference 1787-1793", 40 J.Pat.Off. Soc'y 611 (1958). Experiences of such men as Oliver Evans, James Rumsey, and John Fitch incident seeking patents in each of several states, particularly as to involved time and expense, may have been one factor in the move for centralized federal patent power.

[61] Bugbee, *supra*, note 20 at p. 85.

[62] *Id.* at p. 99.

[63] For example, Thomas Jefferson, one of the most learned men of his day, commented in an 1813 letter to Isaac McPherson that,

> "It is a fact, as far as I am informed, that England was, until we copied her, the only country on earth which ever, by a general law, gave a legal right to the exclusive use of an idea. In some other countries it is sometimes done, in a great case and by a special and personal act, but, generally speaking, other nations have thought that these monopolies produced more embarrassment than advantage to society; . . ." VI Writings of Thomas Jefferson (Washington ed.) at p. 180 (1814).

merit an exclusive grant, must transcend the ordinary level of skill in the art.

A. The Constitutional Convention

The annals [64] of the 1787 Constitutional Convention shed very little light on the debate, if any, pertinent to the adoption of the Patent Clause. In large part, this seems to be attributable to the circumstances under which the Convention was conducted, pursuant to which the delegates agreed that no minutes would be kept of the actual deliberations so as better to permit them to express their views free of the possibility of political reprisals in their home states.

Those records which do survive, demonstrate that several different proposals were made for the form of language,[65] that some of these proposals contemplated a separate clause to cover patents from that which covered copyrights, that the question of the language in which the provision should be cast was submitted to a committee chaired by David Brearley of New Jersey and that this committee on September 5, 1787 reported to the Convention the language now appearing in the Constitution, which was adopted on the same day.[66]

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[64] For the details of what *is* available concerning the deliberations at the Convention including, *inter alia*, the journal of James Madison, first opened to the public some thirty years after the conclusion of the Convention, see Farrand, "The Records of the Federal Convention of 1787" and House Document No. 398, 69th Cong., 1st Sess. Also of interest, though less detailed and devoid of reproduction of the pertinent historical documents, is Warren, "The Making of the Constitution" (1928) and its 1947 revision.

[65] For details of precise language of the different proposed forms of the pertinent clause see the works cited in note 64, *supra*; also see Fenning, "Origin of the Patent and Copyright Clause of the Constitution", 11 J.Pat.Off. Soc'y 438 (1927); Prager, "A History of Intellectual Property From 1547-1587", *supra*, note 20 at p. 759; Bugbee, *supra*, note 20 at pp. 125 *et seq*.

[66] See works cited in note 64, *supra*.

Far more informative in demonstrating the real intent of the constitutional framers incident the adoption of the Patent Clause is a consideration of various contemporaneous and immediately subsequent writings and actions of the framers in the context of the whole Constitution and its interpretation by the Supreme Court over the years.

B. Controlling Property Concepts

James Madison, one of the most influential of the constitutional framers over the ultimate form and content of the Constitution, set forth his concepts of "property and liberty" in terms that are particularly meaningful even today. Property, said he, "in its particular application means 'that domination which one man claims and exercises over the external things of the world, in exclusion of every other individual'." However,

> "In its larger and juster meaning, it embraces every thing to which a man may attach a value and have a right; *and which leaves to every one else the like advantage.*
>
> In the former sense, a man's land, or merchandise, or money is called his property.
>
> In the latter sense, a man has property in his opinions and the free communication of them.
>
> He has a property of peculiar value in his religious opinions, and in the profession and practice dictated by them.
>
> He has property very dear to him in the safety and liberty of his person.
>
> He has an equal property in the free use of his faculties and free choice of the objects on which to employ them.
>
> In a word, as a man is said to have a right to his property, he may be equally said to have a property in his rights.

"Where an excess of power prevails, property of no sort is duly respected. No man is safe in his opinions, his person, his faculties or his possessions.

Where there is an excess of liberty, the effect is the same, tho' from an opposite cause.

Government is instituted to protect property of every sort; as well that which lies in the various rights of individuals, as that which the term particularly expresses. This being the end of government, that alone is a *just* government, which *impartially* secures to every man, whatever his *own*. . . .

* * * *

That is not a just government, nor is property secure under it where arbitrary restrictions, exemptions, and monopolies deny to part of its citizens that free use of their faculties, and free choice of their occupations, which not only constitute their property in the general sense of the word; but are the means of acquiring property strictly so called. . . .

* * * *

If there be a government then which prides itself on maintaining the inviolability of property; which provides that none shall be taken *directly* even for public use without indemnification to the owner, and yet *directly* violates the property which individuals have in their opinions, their religion, their persons, and their faculties; nay more, which *indirectly* violates their property, in their actual possessions, in the labor that acquires their daily subsistence, and in the hallowed remnant of time which ought to relieve their fatigues and soothe their cares, the inference will have been anticipated, that such a government is not a pattern for the United States.

"If the United States mean to obtain or deserve the full praise due to wise and just governments, they

will equally respect the rights of property, and the property in rights." [67]

Man's "property in the free use of his faculties and free choice of the objects on which to employ them", translated into the patent field, necessarily includes man's right to use his talent and skill as he will. This right *a fortiori* belongs to every man and is *not* an essential prerogative of a particular person whether or not he is the originator of something new. Incompatible with this is a strange theory, adhered to by some even today, that every man has a natural property right in his own ideas which society is morally obligated to protect—with the result that patents for new ideas are of the essence of "natural" law and ought to be recognized by positive law.[68]

On its face this "natural property right in ideas" theory has little of logic. Ideas, by their very nature, identically occur in many minds. "Property in ideas, once published, is an insoluble contradiction".[69] It is a "strange confusion of thought which puts on the same level an invention . . . the peculiar characteristic of which is that it can be disseminated through many minds and can be exploited in a hundred different places at the same time—with a material object, necessarily circumscribed, which, because it cannot be divided, can only be possessed by one man

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[67] From an article of March 29, 1792, published in National Gazette quoted from "The Complete Madison", edited by S. K. Padover (1953) at pp. 267-69.

[68] Some writers purport to see support for this theory in the constitutional Patent Clause because it speaks of "securing" exclusive rights to inventors for their discoveries. See, *e.g.*, Prager, "A History of Intellectual Property From 1545 to 1787", *supra*, note 20; Fox, *supra*, note 20; Bugbee, *supra*, note 20; Lutz, *supra*, note 1. The argument is essentially semantic and lacks objective support in precedent or legislative action.

[69] Rentzsch, "Geistiges Eigentum", Handworterbuch der Volkswirtschaft (Leipzig 1866) at pp. 333-34, as quoted in translation by Machlup and Penrose, "The Patent Controversy in the Nineteenth Century", 10 J.Econ. History 1, 12 (1950).

and which cannot be usefully exploited except where it is. . . ." [70] In short, "an idea can belong to an unlimited number of persons; it is indeed the essence of an idea that, once published, it belongs to all the world. . . ." [71] Jefferson, who viewed "stable ownership" as "the gift of social law . . . given late in the progress of society" utterly rejected the notion that inventions might be a natural subject of property.[72]

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[70] Coquelin, "Brevets d'invention", Dictionaire de l'economie politique (Paris 1873) at p. 217, as quoted in translation by Machlup and Penrose, *supra*, note 69.

[71] Michel Chevalier speaking in the French legislative body on June 5, 1869, as quoted in translation by Machlup and Penrose, *supra*, note 69 at p. 13.

[72] In pertinent part, he stated:

> "It would be curious then, if an idea, the fugitive fermentation of an individual brain, could, of natural right, be claimed in exclusive and stable property. If nature has made any one thing less susceptible than all others of exclusive property, it is the action of the thinking power called an idea, which an individual may exclusively possess as long as he keeps it to himself; but the moment it is divulged, it forces itself into the possession of everyone, and the receiver cannot dispossess himself of it. Its peculiar character, too, is that no one possesses the less, because every other possesses the whole of it. He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me. That ideas should freely spread from one to another over the globe, for the moral and mutual instruction of man, and improvement of his condition, seems to have been peculiarly and benevolently designed by nature, when she made them, like fire, expansible over all space, without lessening their density in any point, and like the air in which we breathe, move, and have our physical being, incapable of confinement or exclusive appropriation. Inventions then cannot, in nature, be a subject of property. Society may give an exclusive right to the profits arising from them, as an encouragement to men to pursue ideas which may produce utility, but this may or may not be done, according to the will and convenience of the society, without claim or complaint from anybody." Letter to Isaac McPherson, *supra*, note 63.

In *Shaw* v. *Cooper*,[73] the Supreme Court carefully specified that the exclusive right conferred by the patent laws, while perhaps justly deserved by inventors "can only be secured by a substantial compliance with every legal requisite. His [*i.e.* the inventor's] exclusive right does not rest alone upon his discovery, but also upon the legal sanctions which have been given to it, and the forms of law with which it has been clothed." [74] In similar vein, Congress in 1894 incident a general codification of the patent laws, rejected the natural property right theory as applied to patents, stating that the patent clause of the Constitution clearly cannot be read to state or imply such a right:

> "The object to be attained and the reason for the constitutional grant of power are imbedded in the grant itself. They are 'to promote the progress of science and the useful arts'. *There is nothing said about any desire or purpose to secure to the author or inventor his 'natural right to his property'. The monopoly given him is avowedly given, not primarily for his benefit, but for the benefit of society at large.* The claims made so often, especially of recent years, that the author or inventor has a natural right to the exclusive use of his production, and is therefore entitled, as of course, to legislation securing to him the full enjoyment of this right, does not seem to have been specifically passed upon by the fathers; but one thing is absolutely certain, they did not make this constitutional grant of power upon any such ground. Much confusion of thought has arisen from the assertion of this right as an innate, absolute right existing

[73] 32 U.S. 290, 318 (1833).

[74] The Supreme Court has also recognized an *inchoate* right of property in an invention during the period of reduction to practice and application for patent as implicit in the patent laws, *Pennock* v. *Dialogue, supra*, p. 11a, *Gayler* v. *Wilder*, 51 U.S. 477 (1850), *Brown* v. *Duchesne*, 60 U.S. 183 (1857), but has been careful to make clear that an actual property right does not arise until the patent is issued. *Marsh* v. *Nichols*, 128 U.S. 605 (1888).

in the individual, and a contemporaneous neglect to examine the limitation of the power given in the premises to Congress.

"It is perhaps safe to say that for the past twenty or thirty years no Committee on Patents has had an existence which has not had the fortune to listen to long and very interesting arguments claiming the existence in the author or inventor of this right, and the duty of Congress to give by legislative enactment full and complete enjoyment of that right. Whatever may be the correct conclusion as to the existence of any such right, the duty of Congress is measured by its power, and that power can be no broader than the words conferring it.

. . . It is sufficient to read the words of the grant in their plain every-day meaning to discover that the good of society was the only things provided for, or intended to be provided for. . . ." [75]

Further confirmation of the constitutional rejection of the natural property right theory as applied to new ideas, if such be needed, is present in the mandates of the Fifth and Fourteenth Amendments of the Constitution. Consistent with Madison's views, these amendments recognize, as property of *every citizen* the right to utilize his own talents and skills in the pursuit of a trade or calling.[76] The amendments have many times been explicated by the Supreme Court. For example, in *Allgeyer* v. *Louisi-*

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[75] House Report No. 1494, 52d Cong., 1st Sess. (1894). A similar rejection of the natural right approach as applied to copyrights appears in House Report No. 2222, 60th Cong., 2d Sess. (1909) at p. 7. See also, *Graham, supra,* note 1 reaffirming in 1966 that "[t]he patent monopoly was not designed to secure to the inventor his natural right in his discoveries."

[76] Or as the 1772 Boston Town Meeting put it in pursuit of the "necessaries and conveniences of life", *supra,* p. 28a. The same thought expressed as the right to "life, liberty and the pursuit of happiness" appears in the Declaration of Independence.

ana,[77] the Court stated, specifically with regard to the Fourteenth Amendment,

> ". . . The liberty mentioned in that amendment means, not only the right of the citizen to be free from the mere physical restraint of his person, as by incarceration, but the term is deemed to embrace the right of the citizen *to be free in the enjoyment of all his faculties; to be free to use them in all lawful ways; to live and work where he will; to earn his livelihood by any lawful calling; to pursue any livelihood or avocation*, and for that purpose to enter into all contracts which may be proper, necessary, and essential to his carrying out to a successful conclusion the purposes above mentioned.
>
> It was said by Mr. Justice Bradley in Butchers' Union S.H. & L.S.L. Co. v. Crescent City L.S.L. & S.H. Co., 111 U.S. 746, 762, in the course of his concurring opinion in that case, that 'the right to follow any of the common occupations of life is an inalienable right. It was formulated as such under the phrase "pursuit of Happiness" in the Declaration of Independence, which commenced with the fundamental proposition that 'all men are created equal; that they are endowed by their Creator with certain inalienable rights; and among these are life, liberty, and pursuit of happiness.' This right is a large ingredient in the civil liberty of the citizen.' Again, on page 764, the learned justice said: 'I hold that the liberty of pursuit—the right to follow any of the ordinary callings of life—is one of the privileges of a citizen of the United States.' And again, on page 765: 'But if it does not abridge the privileges and immunities of a citizen of the United States to prohibit him from pursuing his chosen calling, and giving to others the exclusive right of pursuing it, it certainly does deprive him, to a certain extent, of his liberty; for it takes from him the freedom of adopting and following the pursuit which he prefers; which, as already

[77] 165 U.S. 578, 589-90 (1886).

> intimated, is a material part of the history of the citizen.' It is true that these remarks were made in regard to questions of monopoly, but they well describe the rights which are covered by the word 'liberty' as contained in the 14th Amendment."

The basic premise that "[t]he right to hold specific private employment and to follow a chosen profession free from unreasonable governmental interference comes within the 'liberty' and 'property' concepts of the Fifth Amendment," has been reaffirmed in recent years.[78] These rights are equally inherent in the Ninth Amendment and the Tenth Amendment reservations to the people of rights and powers not delegated to the federal government in the Constitution, or to a particular state in its constitution, a fact which has been clearly recognized in state courts.[79]

A fortiori, there being no natural right to exclusive property in an idea, and the patent right being an intrusion upon the property right of every citizen in the free exercise of his own talents, the patent power must be construed narrowly. And thus construed, it may not reward new ideas which are products of ordinary skill in the art because exclusive property rights in such ideas are as much direct infringements upon the opposing and preeminent rights of every citizen in our culture as similar grants were infringements upon guild monopolies in Venice and Elizabethan England.

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[78] *Greene* v. *McElroy*, 360 U.S. 474, 492 (1959); *United States* v. *Robel*, 389 U.S. 258 (1967).

[79] For example, the Supreme Court of California has held that,

> ". . . [P]ublic policy and natural justice require that equity should also be solicitous for the right inherent in all people, not fettered by negative covenants upon their part to the contrary to follow any of the common occupations of life. Every individual possesses as a form of property, the right to pursue any calling, business or profession he may choose." *Continental Car-Na-Var Corp.* v. *Moseley*, 148 F.2d 9 (1944).

As said in *Atlantic Works* v. *Brady*,[80]

> "The process of development in manufactures creates a constant demand for new appliances, which the skill of ordinary head workmen and engineers is generally adequate to devise, and which, indeed, are the natural and proper outgrowth of such development. Each step forward prepares the way for the next, and each is usually taken by spontaneous trials and attempts in a hundred different places. To grant to a single party a monopoly of every slight advance made, except where the exercise of invention, somewhat above ordinary mechanical or engineering skill, is distinctly shown, is unjust in principle and injurious in its consequences.
>
> The design of the patent laws is to reward those who make some substantial discovery or invention, which adds to our knowledge and makes a step in advance in the useful arts. Such inventors are worthy of all favors. It was never the object of those laws to grant a monopoly for every trifling device, every shadow of a shade of an idea, which would naturally and spontaneously occur to any skilled mechanic or operator in the ordinary progress of manufactures. . . ." [81]

Mr. Justice Bradley wrote the *Atlantic Works* decision. In his concurring opinion in *Butchers' Union*, cited and quoted in *Allgeyer*, *supra*, delivered only a year later, he noted that "[t]he granting of patents for inventions and copyrights for books is one instance already referred to [of permissible exclusive rights]. This is done upon a fair consideration and upon grounds of public policy. Society gives to the inventor or author the exclusive benefit for a

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[80] 107 U.S. 192 (1883).

[81] 107 U.S. at 199-200. This passage was cited and quoted in *A&P*, *supra*, note 1. The latter is in turn reaffirmed in *Anderson's Black-Rock*, *supra*, p. 10a. See also *Hotchkiss* v. *Greenwood*, 52 U.S. 248 (1850), which also expresses this same thought, now codified in 35 U.S.C. 103. See *Graham*, *supra*, note 1.

time of that which, but for him, *would not or might not have existed;* and thus not only repays him but encourages others to provide their powers for the public utility." [82] While the quoted language does not define explicitly the "fair consideration" upon which patents may be granted, its suggestion that but for the inventor the invention "would not or might not have existed" is obviously to be read in context with *Atlantic Works* to mean that only a high standard of invention will achieve the requisite balance. Manifestly, one aspect of the *primary* public interest which dominates the patent system [83] is society's paramount goal of preserving the rights of all men in the free use of their own skill and talent—a goal which would be undermined by indiscriminate patent grants in all "new" discoveries. It follows that "should Congress, under pretext of executing its powers, pass laws for the accomplishment of objects not entrusted to the government" such as a purported patent law derogating the true natural property rights of all citizens, the Court would have "the painful duty . . . to say that such an act was not the law of the land". [84]

C. Monopolies and Commerce

Many of those who presently insist that the constitutional Patent Clause does not impose a mandatory lower limit upon the standard of invention, view patents as a primary tool for encouraging commerce through bringing new inventions to market. [85] Proponents of this view often

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[82] 111 U.S. 746, 763. The first references by the Court to the Constitutional origin of the requirement for invention, *supra*, note 15, were made the next year after *Butchers Union* and are particularly illuminating in this context.

[83] See, *e.g.*, the cases *cited* in note 16, *supra*, especially *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 660, 665-66 (1944).

[84] *McCulloch* v. *Maryland*, 17 U.S. 316, 423 (1819).

[85] See, *e.g.*, Judge Frank, concurring in *Picard* v. *United Aircraft Corp.*, 128 F.2d 632, 643 (2d Cir. 1942); Lutz, *supra*, note 1; Seidel, *supra*, note 19; Posnack, *supra*, note 19.

urge that patents for merely novel subject material could be justified under the Commerce Clause of the Constitution even if not permitted by the Patent Clause.[86]

A major inherent defect of this view is that it fails even to strive for harmony in the interpretation of the entire Constitution and, instead, pits the Patent Clause against the Commerce Clause, ignoring altogether the effects of Fifth and Fourteenth Amendment guarantees.[87]

In the first place, if the Constitution had ever intended that patents might be granted as a device for encouraging *commerce*, it seems inescapable that there would have been no need for a Patent Clause in the Constitution and hence

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[86] See *Picard, supra*, note 85. See also, 84 Stat. 1558 § 131, the Plant Variety Protection Act, purporting to justify the grant of exclusive rights for seventeen years to the owner of any merely new sexually reproduced plant as follows:

> "It is the intent of Congress to provide the indicated protection for new varieties by exercise of any constitutional power needed for that end, so as to afford adequate encouragement for research, and for marketing when appropriate, to yield for the public the benefits of new varieties. Constitutional clauses 3 [the Commerce Clause] and 8 [the Patent Clause] of article I, section 8 are both relied upon."

Obviously recognizing that these *de facto* patents covering useless and noninventive plant varieties are unconstitutional and anticipating that the Court will eventually so hold, Congress then included in the statute a Section 132 providing that:

> "If this Act is held unconstitutional as to some provisions or circumstances, it shall remain in force as to the remaining provisions and other circumstances."

Notably, agricultural lobbies were the main witnesses concerning this bill prior to its enactment—and as a result, the public interest was given short shrift.

[87] It is well established that if possible a constitution, like a statute, must be so read as to give effect to all of its parts without doing violence to any. See, *e.g.*, *United States* v. *Boisdore's Heirs*, 49 U.S. 113 (1850); *United States* v. *American Trucking Assn.*, 310 U.S. 534 (1940); *United States* v. *Alpers*, 338 U.S. 680 (1950); and *Mastro Plastics Corp.* v. *N.L.R.B.*, 350 U.S. 270 (1956).

none would have been included. Particularly so, moreover, when it is remembered that previous patent experience in both England and the American Colonies, had been directed primarily toward the encouragement of the introduction of new manufactures into commerce, so that the possibility of using patents to stimulate commerce must have been considered. Certainly, the breadth of the commerce power would have permitted the federal exercise of power to grant patents [88] if no specific patent power had been extended.[89]

It necessarily follows that the *separate* patent clause was included at least in part to emphasize that Congress had no power to provide for the granting of patents as a primary stimulant to commerce. Consistently, Supreme Court pronouncements over the years have stressed that the inventor's reward in the constitutional scheme is only a secondary object of the patent system.[90]

Moreover, the remoteness from any legitimate objective of the patent laws of financial rewards to investors for the commercialization of an invention was particularly recognized in *Wilson* v. *Rousseau*,[91] the Court emphasizing.

> "They had purchased portions of the interest in the invention, and dealt with the patent rights as a

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[88] As Chief Justice Marshall observed in *Gibbons* v. *Ogden*, 22 U.S. 1 (1824), that power is embracive of every aspect of "intercourse between nations and parts of nations, in all its branches . . . ."

[89] Consistent with this thinking is the circumstances that a proposed provision granting Congress power "to establish public institutions, rewards and immunities, for the promotion of agriculture, commerce, and manufactures," was defeated with Governeur Morris of New York, one of its opponents, observing "[i]t is not necessary. The exclusive power at the seat of government will reach the object." See Warren, *supra*, note 64 (1947 ed.) at p. 702.

[90] See, *e.g.*, *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, *supra*, note 16, citing and quoting, *inter alia*, *Pennock*, *supra*, p. 11a.

[91] 49 U.S. 646, 678 (1846).

matter of choice and speculation; and stood in no different relationship to the government or the public than other citizens engaged in the common affairs of life."

Robinson on Patents in 1890 also emphasized that,

". . . When the Constitutional Convention met, its members had before them, there under consideration, the English idea, and a suggestion of a different idea, in the practice of the colonies. The English idea had been to encourage monopolies so that the introduction of a new trade or a new art was the essence of the law. The constitutional idea, however, was that of encouraging domestic invention, and in the first patent law of 1790, and in all subsequent amendments of that law, the basic idea has been to encourage original invention. The introduction of those inventions into use was wisely left to the incentive of business enterprise. The intention was to encourage inventive thought; to secure a disclosure of the inventive thought as promptly as possible." [92]

As said in *McClain* v. *Ortmayer*,[93]

". . . If the generality of sales were made the test of patentability, it would result that a person by securing a patent upon some trifling variation from previously known methods, might, by energy in pushing sales or by superiority in finishing or decorating his goods, drive competitors out of the market and secure a practical monopoly, without in fact having made the slightest contribution to the useful arts." [94]

In short, the entrepreneur's relationship to the patent system under our Constitution is at best incidental.[95]

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[92] Robinson on Patents (1890 ed.), Introduction (pp. 4-5).

[93] 141 U.S. 419 (1890).

[94] 141 U.S. at 428.

[95] See also, *Graham, supra*, note 1, 383 U.S. at 17, where commercial success is denominated a factor which "may have rele-

Consistent with the earlier thinking of William Penn,[96] patents were intended to serve a primarily educational, rather than commercial, function in the American constitutional scheme. This conclusion in turn leads directly back to the fact that the constitutional Patent Clause requires a high standard of invention in order to effectuate that purpose.

Further evidence that the patent Clause requires a high standard of invention may be gleaned from some of the debate between the Federalists and the Antifederalists, prior to ratification of the Constitution, concerning whether the commerce power was broad enough to give Congress an unlimited license to grant monopolies in trade and commerce.[97] The Antifederalists wanted an express prohibition against monopoly in the Constitution. In asserting that it was not needed because already present, one Federalist, writing under the pseudonym "Marcus", responded to the objections of George Mason of Virginia in pertinent part as follows:

> "The first mentioned is, 'That the Congress may grant monopolies in trade and commerce.' Upon examining the constitution I find it expressly provided, 'That no preference shall be given to the ports of one State over those of another;' and that 'citizens of each State shall be entitled to all privileges and immunities of citizens in the several States.' These provisions appear to me to be calculated for the very

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vancy" in assessing whether the constitutional standard of invention has been met—albeit as emphasized later, 383 U.S. at 35-36, not where "exceedingly small and quite nontechnical differences in a device which was old in the art" are at issue.

[96] *Supra*, p. 25a-26a.

[97] The Antifederalist view as to the impermissible sweep of the Commerce Clause was espoused, *inter alia*, by George Mason of Virginia, by a pamphleteer styled "Agrippa" who may have been James Winthrop of Massachusetts and even to some extent by Thomas Jefferson who initially believed that the Constitution might benefit from a Bill of Rights provision expressly prohibiting all monopolies including patents. See generally, Schwartz, *supra*, note 40, especially at pp. 444-47 and 510-23.

purpose Mr. Mason wishes to secure. Can they be consistent with any monopoly in trade and commerce? [2]

[2] One of the powers given to Congress is, 'To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.' I am convinced Mr. Mason did not mean to refer to this clause. He is a gentleman of too much taste and knowledge himself to wish to have our government established upon such principles of barbarism as to be able to afford no encouragement to genius." [98]

Here again, in the equation of "taste and knowledge" with inventive "genius" and in its opposition to "barbarism", there is evidence of a recognized primary patent purpose to stimulate intellectual and educational, rather than commercial, development.

The drive for a constitutional amendment specifically prohibiting all monopolies did not, of course, succeed. However, the Fifth and Fourteenth Amendment guarantees [99] and the reservations of certain individual rights to the people in the Ninth and Tenth Amendments are necessarily just as much of a restriction upon the commerce power as they are upon the patent power. Considered in context with Coke's definition of monopoly,[100] these guarantees necessarily prohibit all those forms of monopoly power—such as exclusive trading and manufacturing corporations—which had particularly plagued the American settlers as well as any new forms of monopoly which might invade established rights of the people or interfere with their practice of a lawful trade. This fact would seem to compel the further conclusion that there is *no substance* to any argument that the Congress might be empowered to do indirectly under the Commerce Clause what it is forbidden to do under the Patent Clause and authorize the granting of patents which would deprive

[98] See Schwartz, *supra*, note 40 at p. 451.

[99] Discussed, *supra*, pp. 37a-41a.

[100] *Supra*, note 27.

the public of access to knowledge within the ordinary skill of the art.[101]

D. Contemporaneous Construction of the Patent Clause

Patent legislation in the form of the Patent Act of 1790 followed hard upon the heels of the ratification of the Constitution.[102]

The Patent Act of 1790 was the first patent *statute* anywhere to require as a condition of the grant the submission of a detailed specification fully describing the invention. By contrast to earlier requirements for putting the invention into commercial use as a prerequisite to the patent grant, this statutory requirement strongly emphasized the primary teaching function of the patent right under the Constitution.

Under the Patent Act of 1790, as is now well known, Thomas Jefferson, a member of the Patent Board, evolved a set of rules designed to insure observation of a high standard of invention incident the granting of patents. These rules, reproduced in the Court's opinion in *Graham* v. *John Deere Co.*,[103] were intended by Jefferson to serve as the nucleus for additional rules to be worked out with

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[101] Congress seems to so realize, even though not always guided by the realization. See note 86, *supra*.

[102] Interestingly, the first form of patent statute proposed in Congress after ratification referred to both patents and copyrights and provided, analogously to legislation now under consideration, that an applicant for patent must publish in two newspapers a notice of his application briefly describing his invention and inviting any one opposed to the patent grant to appear at a particular time and place to contest it. The only known copy of this proposed bill identified as H.R. Bill No. 10 is retained at the Copyright Office, Library of Congress. Its discovery was announced July 25, 1955 in the Information Bulletin of the Reference Division of that office, Vol. 14, p. 13.

[103] *Supra*, note 1, 383 U.S. 1, 10.

reference to the specific facts of particular situations as they later arose. In essence, these rules defined as *per se* unpatentable because within the ordinary skill of the art and hence, if patented, incursions upon the rights of the people, the following: (1) aggregations of old elements such as the Court most recently condemned in *Anderson's Black Rock;*[104] (2) mere changes of form or material in otherwise old objects; and (3) applications of old machines to new and obvious uses. All of these rules, in view of their evolution within a period only five years subsequent to the drafting of the Constitution, must be considered as particularly persuasive contemporaneous evidence of its requirement for a high standard of invention.

VII. CONCLUSION

In the frame of history, the Constitution authorizes the promulgation of a patent system *only* to advance the level of science and useful arts to an extent beyond what exercise of ordinary skill and judgment at the same point in time could provide.

This constitutional standard of invention did not originate in our society, but derives from Renaissance Europe, where patents originated, and from Elizabethan England. At their beginnings, patents were special exclusive licenses from a sovereign, permitting their recipients to practice a particular art in derogation of existing monopoly prerogatives of collective guilds over all arts and crafts. To balance guild interests in a stable society against realm interests in technological progress, valid patents were restricted to subject matter transcending what the ordinary level of skill in the art could then have provided. Early patent systems necessarily acted to promote commerce as well as progress, since public disclosure was then perforce synonymous with commercial use.

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[104] *Supra*, p. 9a.

The American experiment provided the first political milieu in which every citizen was accorded *in practice* a right, tantamount to a property right, to exploit his own talents and skills in pursuit of a trade without guild fetters or similar restraints. Indiscriminate exclusive patent protection to any particular citizen conflicts with this universal personal right of every citizen in the same way it earlier conflicted with guild monopolies. Hence, to preserve the universal personal right, society may permit patents *only* for the purpose of promoting progress in science and useful arts, where "progress" is defined as that quantum of advancement which might not or could not result from ordinary pursuit of normal skill and judgment. Society's paramount desire to preserve personal rights is manifested in our Constitution in the failure of the people to cede to the federal government an unlimited power to grant exclusive patent rights unreservedly. This state of affairs can be changed only if the Constitution is amended and the people give up some portion of the personal rights they now retain.

When the Constitution was adopted, means for general circulation of written material were available and public disclosure could hence be made without commercialization. Monopolies in commerce, including trade and manufacture, were then much in disrepute as infringements upon universal personal rights. English monopolies in commerce had at least accelerated and perhaps precipitated the establishment of the Union of American States, and there was little disposition toward use of exclusive patent rights to promote commerce.

The fact that patents are not available in the United States as mere monopolies to promote commerce which would necessarily encroach upon the aforementioned universal right of every citizen, is emphasized by the separate status in Article I of the Constitution of the Patent and Commerce Clauses. These separate clauses and the guar-

antees of individual liberties in the Fifth and Fourteenth Amendments can be rationalized and harmonized *only* if the patent power is understood to be narrowly confined to the encouragement of real breakthroughs in science and useful arts—*i.e.* progress—thereby preserving society's primary goal of permitting every citizen to pursue his trade freely. When this goal is preserved, monopolization of what society enjoyed before, or had a right to pursue, is likewise avoided. When the goal is not preserved and patents are indiscriminately permitted for subject matter falling within the ordinary skill of the art, patents in fact are monopolies which act to restrain unfairly the exercise of ordinary skill and thereby to stagnate and even retard science and useful arts.

This is the lesson of history which prompted the framing of our Constitution—and it is this same lesson which, today more than ever, *ought* to be heeded in the interest of advancing and not stifling the progress of our civilization.

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No. 73-187

In the Supreme Court of the United States

OCTOBER TERM, 1973

KEWANEE OIL COMPANY, PETITIONER

v.

BICRON CORPORATION, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

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BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Sixth Circuit (Pet. App. A1–A25) is reported at 478 F. 2d 1074. The findings and conclusions of the United States District Court for the Northern District of Ohio (App. 51–90) are not reported.

JURISDICTION

The judgments of the court of appeals were entered on May 10, 1973 (Pet. App. A26–A28). The petition for a writ of certiorari was filed on July 27, 1973, and was granted on October 9, 1973 (414 U.S. 818). The jurisdiction of the Court rests on 28 U.S.C. 1254(1).

QUESTION PRESENTED

Whether the state trade secret law implemented here by the permanent injunctive relief granted by the district court is preempted because it interferes with the accomplishment of the purposes and objectives of the federal patent system or the national policy favoring competition.

INTEREST OF THE UNITED STATES

This brief is submitted in response to this Court's order of October 9, 1973, inviting the United States to submit a brief presenting its views in this case. The United States is responsible for administering and enforcing the Acts of Congress involved in this case, particularly the patent statute, 35 U.S.C. 101, *et seq.*

STATEMENT

This is a diversity case, brought by petitioner, Kewanee Oil Co., against the respondents, six of its former employees and Bicron Corp. (a corporation formed by four of the individual respondents); the suit was for damages and injunctive relief in respect of the employees' use of trade secrets discovered by Kewanee—processes for making industrial crystals.[1] Kewanee alleges that it is a leader in the field of making such crystals by reason of the secret technology it has developed, and that its competitive

[1] The synthetic crystals involved are technically known as sodium iodide thallium activated scintillation crystals. They are used in radiation detectors employed for geophysical surveys of uranium and oil, clinical measurement of radio isotopes and space exploration (App. 53). They were discovered and patented by Professor Robert Hofstadter of Princeton University. This patent has long since expired.

position would be irreparably damaged if this information were utilized by a competitor (App. 12). Kewanee is the largest firm in the field; it has three competitors in the United States,[2] and Bicron unsuccessfully sought to become the fourth. Kewanee is the only firm that has been able to make the large diameter (17-inch) crystals to which the secrets relate.

The district court found that of Kewanee's 40 alleged trade secrets (App. 59–60) 20 actually were trade secrets (App. 82–83). It also found that respondents had not yet used or disclosed the secrets, but that there was an imminent danger that the ex-employees would begin commercially exploiting the secrets in competition with petitioner (App. 89), contrary to their "confidential relationship, and * * * duty of loyalty and fidelity to their employer."[3]

The district court did not award damages, but it found an injunction necessary. The court balanced two considerations in formulating relief. On the one hand, it said, "it is inevitable that some of the knowledge acquired while in the former employment should be made available to the new employer, and courts will not deprive the employee of the right to use the skill

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[2] App. 54. There are also one or two competitors in Japan, one in England, and one in France (*ibid.*).

[3] App. 87. Although the findings indicate that some of the defendants entered into agreements with petitioner not to use petitioner's "inventions or discoveries or its secret or confidential information, knowledge or data" (App. 69, 70, 72, 73), and all the individual defendants agreed not to disclose petitioner's secrets (App. 67, 69, 70, 73), the district court placed no stress on this. Instead, it relied on the principle of Ohio law creating an implied agreement or obligation by employees not to use their former employers' trade secrets (App. 87–88).

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he developed through the years." On the other hand, "the courts seek to enforce increasingly high standards of fairness or commercial morality and to protect the owner of information obtained through the ingenuity and effort of its employees, and its expenditures of time and money" (App. 89–90). The decree permanently enjoined the respondents from using the secrets, unless they subsequently became generally known by reason of petitioner's choice to release them or by other lawful means.[4]

On cross appeals, the court of appeals reversed the judgment, solely on the basis of preemption under the decisions of *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, and *Lear, Inc.* v. *Adkins*, 395 U.S. 653. In so ruling, the court appears to have stressed these facts: The processes were patentable types of subject matter, in that 35 U.S.C. 101 permits the grant of a patent on novel and inventive processes of making industrial crystals (Pet. App. A6–A7). Petitioner chose not to apply to the government for a patent (or patents) on the processes; rather, it decided to exploit them secretly for commercial purposes, and it did so for longer than the one-year grace period the patent statute provides "for an inventor to make up his mind whether or not to file an application for patent" (35 U.S.C. 102(b); H. Rep. No. 961, 76th Cong., 1st Sess., p. 1; S. Rep. No.

[4] The injunction provided that the defendants were not to "be restrained by this injunction from using any trade secret of plaintiff after it has been released to the public by plaintiff, such as by the issuance of a patent, or has otherwise become generally available to the public, or other members of the industry, or is obtained by defendants from sources having the legal right to convey such information" (App. 94).

876, 76th Cong., 1st Sess., p. 1). Petitioner did so because it considered the limited seventeen-year statutory patent monopoly, as compared with the possibility of perpetual trade secret protection, to be an insufficient reward to induce it to disclose and (at the end of the term of the monopoly) dedicate the processes to the public (Pet. App. A7).[5]

INTRODUCTION AND SUMMARY OF ARGUMENT

It is the view of the United States that the decision of the Court of Appeals for the Sixth Circuit should be reversed because state trade secret law is not preempted by federal patent law. There is a view within the government, however, that federal law does in some measure oust state law in this field and that this case should be remanded for additional findings of fact.

Since each of these positions is somewhat different from any so far presented to this Court, we think it may be useful to set out both as well as the reasons

[5] The record discloses (Tr. 1265–1267) that in the case of one of petitioner's methods (App. 59, item 1(c)) it had applied for a patent and the Patent Office advised petitioner that the patent would be granted, but petitioner decided instead to "abandon" the application, thereby keeping the disclosure in the application from being made public. See 37 C.F.R. 1.14(b); *Sears* v. *Gottschalk*, 178 U.S.P.Q. 33, 34–35 (E.D. Va.) (appeal pending). The district court held, however, that this "secret" was not protectable, because petitioner had failed to maintain secrecy with sufficient care. See Pet. Br. 35, n. 11. In another instance, petitioner's Product Group Manager (App. 6, 70) recommended that it secure a patent on a method of preparing and encapsulating crystals (App. 60, item 4(c)(ii)), and filed a patent disclosure with petitioner's legal department, but petitioner decided against applying for a patent and in favor of keeping the process a trade secret (Tr. 1207–1208, 1262–1264, 1265–1266). This secret was included in the injunction granted by the district court (App. 83, 93).

why we ultimately conclude that state trade secret law is not preempted and should control this case. Before doing so, however, we set out the common ground for both positions: the question before the Court is open, not having been settled by any prior decision.

The view within the government that federal law preempts some aspects of state trade secret law is based on the contention that some applications of trade secret law interfere with the policy of the patent system to promote scientific and technological progress by encouraging disclosure of patentable inventions, and that certain other applications of trade secret law interfere with the national policy in favor of free competition. Interference with the policy of the patent system occurs, in this view, because reliance on trade secret law causes patentable inventions to be diverted from the patent system. Such diversion, it is contended, should be tolerated only if it resulted from a reasonable, good faith belief that the protected secret was unpatentable. It is further urged, under this view, that trade secret protection of technology that is not "novel" within the meaning of the patent code is preempted because such technology is in the public domain under the national policy favoring competition. There is no preemption, under this view, of trade secret protection of novel advances in technology that are below the inventive level under the patent code, so long as state protection, in this or any other application of the trade secret laws, is limited in duration so as not to exceed either the time required to rediscover the secret independently ("head-

start") or the time during which the secret does not actually become known.

The position of the United States, however, is that state trade law is not preempted by federal patent or antitrust law. Like state laws enforcing partnership arrangements, trade secret laws perform a useful economic function by permitting the possessor of commercially valuable secret information to share it with others for effective economic use without lessening its value to him. This does not reduce competition since the persons to whom the secret is divulged in the course of their employment or other contractual relationship would not, absent that relationship and the disclosure incident to it, be in a position to compete in the utilization of the secret. Moreover, state trade secret law has for many decades existed side by side with the federal patent and antitrust laws, and there has been no showing that this has interfered with the policies of those federal laws. The federal patent laws merely offer, and do not compel, the exchange of a 17-year monopoly for disclosure of patentable inventions; and there is, in any event, no showing in this case or adequate basis for presuming that a substantial diversion of patentable inventions from the federal patent system is caused by state trade secret laws. Nor is there any basis either shown in this record or otherwise known to us for concluding whether, in its overall effects, state trade secret law enhances or inhibits the competitive process. In these circumstances, and in light of the further considerations (1) that interjecting complex issues of federal preemption would unduly complicate state trade secret litigation

and thus greatly diminish the value of trade secrets and (2) that Congress has repeatedly demonstrated full awareness of the trade secret system and has never indicated disapproval of any aspect of it, we submit that it would be unwarranted at this late date to hold that an implied preemption destroys the many commercial interests and rooted expectations that have developed in reliance on the long-existing body of state trade secret law.

ARGUMENT

I

THE ISSUE IS NOT CONTROLLED BY PRIOR DECISIONS OF THIS COURT

None of the three decisions of this Court dealing with preemption of state law in the area of patents and copyrights controls the outcome of this case. The decisions are *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225; *Lear, Inc.* v. *Adkins*, 395 U.S. 653; and *Goldstein* v. *California*, 412 U.S. 546.

Sears, Roebuck & Co. v. *Stiffel Co.*, 376 U.S. 225, was an action by an owner of a design patent on a pole lamp both for patent infringement and unfair competition. The patented design in issue had been manufactured and sold by the plaintiff. The defendant, aware of the commercial success of the pole lamp design, had copied it. The copying did not involve the use of any information obtained from the plaintiff other than by the examination of the freely available lamp itself. The Seventh Circuit held that although the design patent on the pole lamp was invalid for

want of the required inventiveness, the plaintiff was entitled to an injunction under the Illinois law of unfair competition. This Court reversed, holding that state law which precluded the copying of an uncopyrighted and unpatented work which had, in the copyright sense, been published was contrary to the federal patent and copyright statutes. The state law of unfair competition would, in effect, have provided the full equivalent of patent protection indefinitely for a design which federal law held not to be patentable. There was no issue in *Sears* and the companion case of *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, of state relief against the use of commercial information obtained by any means other than the copying of subject matter freely available. The present case, on the other hand, involves the taking by plaintiff's former employees of confidential information in violation of their fiduciary obligations under state law. The protection afforded, being against only a few persons and lasting only until independent discovery of the secret or other lawful disclosure, is not comparable either to patent protection or to the protection of state law in *Stiffel*.

Lear, Inc. v. *Adkins*, 395 U.S. 653, was an action by a patent licensor for royalties. The California state courts had held that under California law the licensee was not entitled to defend the action on the ground that the patent was invalid. This Court reversed, holding that the federal law that "all ideas in *general circulation* be dedicated to the common good unless they are protected by a valid patent" (395 U.S. at 668, emphasis supplied) overrode the state law of contracts. The court emphasized the federal interest in

freeing commerce from the clog of claimed federal monopolies by giving patent licensees—who "may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery" (*id.* at 670)—the right to challenge the validity of the licensed patents. Adkins had argued, however, that even if licensee estoppel was generally unavailable, the defendant licensee should not be allowed to challenge the validity of his patent because the license had not only conferred the right to the patent, but also had given advance access to the information contained in the patent application. It was in connection with this argument that the Court observed that "[a]t the core of this case, then, is the difficult question whether federal patent policy bars a State from enforcing a contract regulating access to an unpatented secret idea" (395 U.S. at 672). The Court resolved this issue by holding that the plaintiff was not entitled to recover any royalties after the date the patent issued, and specifically refusing to rule on the claim for contractual royalties accruing before the patent issued (395 U.S. at 674–675). This one issue, unresolved in *Lear,* involving state protection of unpatented subject matter, is related to the question now before the Court.

The only other decision of this Court involving preemption in the copyright and patent area is *Goldstein* v. *California,* 412 U.S. 546. That case is important because it made clear that the preemption doctrine as to copyrights is a statutory, not a constitutional doctrine. In deciding whether or not state law relief for the piracy of sound recordings was barred by

federal law, the Court looked to the purposes and effects of the copyright statute to determine whether or not Congress, in denying copyright protection to sound recordings, had also barred state protection. The Court concluded that it had not. Similarly, in this case, the Court must look to the purposes and effects of the patent statute to determine whether or not Congress, in providing for patent protection, has limited state trade secret relief.

II

THE ARGUMENT FOR PARTIAL PREEMPTION AND REMAND OF THIS CASE FOR ADDITIONAL FINDINGS

The view within the government that federal law preempts some but not all state trade secret law rests upon the contention that one aspect of trade secret law interferes with the objective of the patent system to promote scientific and technological progress by encouraging and offering an incentive for the disclosure of patentable technological advances, and that another aspect interferes with the national policy in favor of free competition. The argument supporting this view is as follows.

A. THE POLICIES AND OBJECTIVES OF THE FEDERAL AND STATE SYSTEMS DIFFER, WITH THE CONSEQUENCE THAT THEIR SIMULTANEOUS OPERATION MAY LEAD TO CONFLICT

The patent system is designed to promote scientific and material progress. To that end, inventors are encouraged to disclose their discoveries in return for a monopoly of limited duration. The various state trade secret laws resemble the patent system in their mode of operation because they protect the competitive ad-

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vantage of one who develops commercially valuable information. But the legal theories on which the protected interests are based are different, as are the policies of the two systems. The patent laws create a property right, while trade secret laws merely protect a relational interest between the parties. The policy of the patent laws is the promotion of technological progress. To the extent that any policy has been articulated for trade secret laws, it has usually been the protection of judge-made principles of commercial morality (see, *e.g.*, App. 90). These differences in legal theory and policies may lead in some circumstances to interference by the state law with federal objectives.

Such interference may occur in two ways. First, in terms of "classic" preemption doctrine (see *City of Burbank* v. *Lockheed Air Terminal, Inc.*, 411 U.S. 624; *Perez* v. *Campbell*, 402 U.S. 637, 649–650; *Hines* v. *Davidowitz*, 312 U.S. 52, 67), a federal regulatory scheme may so occupy the field that the concurrent operation of a state scheme detracts from or interferes with the full accomplishment of the federal objective. Second, because the patent statute forbids the grant of a patent for innovations relating to certain types of subject matter, interference may occur if a state law precludes competition in an area set aside by Congress for free competition, thereby disturbing the economic balance Congress adjusted to optimize the national benefit. Cf. *San Diego Bldg. Trades Council* v. *Garmon*, 359 U.S. 236; *International Assn. of Machinists* v. *Gonzales*, 356 U.S. 617.

B. STATE TRADE SECRET PROTECTION OF PATENTABLE INVENTIONS INTERFERES WITH THE DISCLOSURE OBJECTIVE OF THE PATENT STATUTE AND IS THEREFORE PREEMPTED

1. Trade secret laws divert a significant number of inventions away from the patent system, and thus interfere with its objectives

Trade secret protection is an alternative to patent protection for patentable discoveries. Therefore, the two systems compete. If an inventor elects trade secret protection of a patentable invention, the public loses the various benefits of the disclosure of his innovation, which the patent laws require as the price of a 17-year monopoly. Disclosure permits exploitation of the invention for noncommercial scientific purposes (which does not constitute infringement), provides a stimulus to others to develop improvements or to "invent around" the patent, and enables the public, upon expiration of the patent term, to make free use and secure full commercial exploitation of the patented invention. Because "[t]he free flow of both basic and applied scientific knowledge is absolutely essential to the most rapid rate of progress and maximum utilization of our scientific resources," the *raison d'etre* of the patent system is to foster such disclosure—"to bring forth the new knowledge" (*Graham* v. *Deere Co.*, 383 U.S. 1, 9).

Since election by inventors to rely on trade secret law reduces disclosure by diverting inventions away from the patent system, technological progress is slowed, contrary to the goal of federal patent policy. The argument that others are free to make the same invention and secure a patent (despite the earlier invention, see 35 U.S.C. 102(g)) assumes, without

warrant, that another will reinvent the secret within a reasonable time and that the second inventor will not also choose secrecy rather than patent protection.

Federal policy does not merely offer the patent as an option, but favors recourse by an inventor to that system. In establishing the patent system, Congress, presumably, at least hoped that inventors would utilize the system and thus disclose their inventions to the public. Moreover, the statutory (35 U.S.C. 102(b), 102(c), 102(g)) and judicial (*e.g., Kendall* v. *Winsor,* 21 How. 322, 328–329; *Pennock* v. *Dialogue,* 2 Pet. 1) disfavor of inventors who practice their invention in secret and then apply for a patent indicates a desire to encourage recourse to the patent law.

Preemption is also supported, although less urgently, by the need for uniformity in the regulation of the subject. Since the time of Madison (*The Federalist,* No. 43 (Cooke ed., 1961)), it has been recognized that the separate states cannot effectively provide for the protection and promotion of invention and that the subject admits of only one system of regulation. See *Sears, Roebuck & Co.* v. *Stiffel Co.,* 376 U.S. 225, 228. *Goldstein* v. *California,* 412 U.S. 546, held that uniformity was not required in the regulation of copyright, with respect to subject matter which Congress had left outside the federal copyright statute, for it involved only matters "of purely local importance and not worthy of national attention or protection" (*id.* at 558); but the Court carefully confined its ruling to the copyright laws, and appears to have been unanimous in the view that different principles apply in the case of patent law. But in this case the industrial

technology and the industries using it are of more than merely local importance; these processes are within the core area of federal patent regulation (statutory subject matter within 35 U.S.C. 101; see Pet. App. A7). This Court was unanimously of the view in *Stiffel* and *Goldstein* (412 U.S. at 569–570) that, in the case of patentable inventions, federal law has occupied the field.

Petitioner argues (Br. 26–28) that the adverse effects of trade secret law on patent system objectives are ameliorated because trade secret injunctions issue against only a limited segment of the public, such as unfaithful employees, while a patent will be enforced against the world. It is said that trade secret relief is thus not fully "the equivalent of a patent monopoly" (*Stiffel, supra,* 376 U.S. at 233), and should not be subject to federal preemption. The conclusion does not follow.

First, state law need not provide the complete equivalent of patent protection to interfere with the accomplishment of the objectives of Congress. In fields that Congress has fully occupied (as is the case with respect to patents, *Goldstein, supra,* 412 U.S. at 569 (majority opinion), 573 (dissenting opinion of Mr. Justice Douglas), 576–579 (dissenting opinion of Mr. Justice Marshall)), any significant interference will lead to preemption. See, *e.g., Rice* v. *Santa Fe Elevator Corp.,* 331 U.S. 218, 236. Second, the difference in relief may be illusory because those subject to the perpetual injunction may be the principal persons likely to practice the invention. Indeed, the same argument was made for the doctrine of licensee estoppel in *Lear,*

Inc. v. *Adkins,* 395 U.S. 653, 670. The only persons estopped were those few who had promised the patentee not to challenge the patent's validity. The Court rejected the argument because the estopped licensee was often the person most likely to provide competition. See also *Scott Paper Co.* v. *Marcalus Mfg. Co.,* 326 U.S. 249, 257.

It may be conceded that complete preemption would be unduly harsh where the originator of a patentable trade secret is unable to determine whether he can secure a patent or erroneously believes his innovation obvious. Such cases may be dealt with, however, by an exception to preemption for the inventor who shows that he elected to rely on trade secret law, rather than seek a patent, in a reasonable, good faith belief that his innovation was unpatentable. The present case should be remanded to give petitioner the opportunity to show that it elected to rely on trade secret rather than patent protection in a reasonable, good faith belief that its processes were unpatentable.

There are two important premises of this preemption analysis. The first is that state trade secret law significantly diverts inventions from the federal patent system. If there is more than an insignificant amount of diversion, the disclosure objective of the patent law will not be fully accomplished and there will not be the requisite uniformity of regulation. If, on the other hand, there is only an insignificant degree of diversion, there will be "a mere possibility of inconvenience in the exercise of [federal] powers" (*Goldstein, supra,* 412 U.S. at 555, quoting *The Federalist,* No. 32), and there will be no need for preemption.

The second premise is that a change in the degree of availability of state protection would have an impact on the degree of diversion of inventions, whatever it is, away from the patent system. Like the record in *Lear, Stiffel, Perez,* and other preemption cases, the record in this case is anecdotal and does not contain pertinent general industrial data. Even if it did, however, the credibility and value of such data for the purpose of general policymaking would be suspect. The Court has never sought to determine preemption cases on the basis of quantified data. On the basis of common-sense plausibility, the figures proffered in the *amicus curiae* briefs (*e.g.,* U.S. Chamber of Commerce Br., at 16–20), and the published writings of patent law and trade secret experts (see n. 21, *infra,* p. 34), it seems obvious and inevitable (to those within the government taking the position discussed here) ~~and~~ that there is presently taking place a great deal of diversion of technology from the public patent system to the privacy of state trade secrecy systems, with a market value of the technology from millions to billions of dollars. At the same time, it seems obvious (to those same analysts) that lesser or greater availability of state law protection would tend to decrease or increase, respectively, the flow of inventions into the state system rather than the federal system. It would seem to follow, in this view, that such diversion must be stopped, in the name of preemption to protect federal policies dominating the field (cf. *Sola Electric Co.* v. *Jefferson Electric Co.,* 317 U.S. 173, 176).

2. Preemption based on the diversion rationale is limited to patentable inventions

The court of appeals considered one of the most significant factors in determining preemption to be the nature of the subject matter protected by the state trade secret law, in terms of the patent law. The instant case involves processes for making crystals that are used for scientific and industrial purposes (Pet. App. A2). If they are novel and inventive, they would, therefore, have been patentable when discovered, because they are "statutory subject matter" under 35 U.S.C. 101,[6] and counsel for petitioner so conceded below (Pet. App. A7). The category of subject matter sought to be protected here is thus clearly within the areas marked out both by the Constitution[7]

[6] That Section provides: "Whoever invents or discovers any new and useful process * * * may obtain a patent therefor, subject to the conditions and requirements of this title." The Section defines the various categories of "statutory subject matter"—machines, articles of manufacture, compositions, and processes for making or using them. Everything outside these categories is unpatentable "nonstatutory subject matter." See, *e.g.*, *Greenewalt* v. *Stanley Co.*, 54 F. 2d 195 (C.A. 3); *Guthrie* v. *Curlett*, 10 F. 2d 725 (C.A. 2); cf. *Gottschalk* v. *Benson*, 409 U.S. 63, 72.

[7] One of the partitions between preemption and nonpreemption is marked by whether the category of subject matter is outside the scope of "discoveries" and "inventions," as those concepts are used in Art. I, § 8, cl. 8. Nontechnical advances in human knowledge are not within the scope of the constitutional provision and therefore are not part of the federal patent scheme. Such advances as William Empson's discovery of the importance of ambiguity, Gerald Manley Hopkins' discovery of sprung rhythm, and Bach's "tempering" of the chromatic scale, are not subject to patent preemption. The same principle applies to customer lists, stock market quotations, and ways of transacting business.

and the Congress as eligible for protection under the patent laws.[8]

The court of appeals believed that trade secret protection was preempted because (1) these processes are statutory subject matter, and (2) they are now unpatentable, since petitioner used them commercially for more than one year. It found these to be sufficient conditions for preemption for three reasons. First, they established an election by petitioner to forego or forfeit the right to a patent in an attempt "to extend the com-

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[8] Petitioner argues that it was "capricious" for the court of appeals to base its rule of preemption on whether the type of subject matter was patentable, asserting that such a test would "implement no ascertainable societal policy" (Pet. Br. 44). To support this view, petitioner maintains that focusing on subject matter categories would make stock market information, customer lists, and natural or mathematical laws protectable, while machines that were unpatentable would be left unprotected under state or federal law. Petitioner concludes that Congress could not have intended such "irrational" and "absurd consequences" (*id.* at 44–45). This argument ignores both the constitutional limitations on the patent system and the policies of the patent laws.

The Constitution marks one boundary of preemption, as the preceding notes indicate, thus precluding patent clause preemption as to stock market information and customer lists. The statute marks another. The states may not grant exclusionary protection over subject matter that Congress deliberately left outside the patent statute but could have included if it so desired. In *Goldstein* v. *California*, 412 U.S. 546, the Court was unanimous on the point that failure by Congress to provide patent protection on certain technology was to be taken to reflect its judgment that free competition was to prevail. Compare *id.* at 569–570 with *id.* at 574 and *id.* at 576–579. For example, such things as laws of nature or mathematical principles seemingly could be protected as "discoveries" if Congress had desired to do so and if they were in a sufficiently tangible or concrete form to be "useful." That no patents are authorized

mercial monopoly of the invention beyond the 17 years granted by the Patent Laws" (Pet. App. A7). Second, by allowing petitioner "to exclude competition" by means of an injunction despite its forfeiture of patent rights, the state trade secret scheme would improperly grant petitioner "protection which he could not obtain under the laws of the United States" (Pet. App. A25). Finally, because such trade secret protection was potentially unlimited in duration, it conflicted with the public disclosure policy of the patent laws (*ibid.*).

The factors the court considered are relevant, but they do not constitute sufficient conditions for preemption. Moreover, the first reason set forth above, forfeiture, is immaterial to resolution of the case, while the second and third points require a more detailed examination to determine their materiality.

First, the fact that the processes are now unpatentable because more than a year of secret commercial

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to be granted on them reflects Congress' belief that the progress of science and the useful arts will be better promoted if the entire public is permitted to use such things freely, for they are the basic currency or mental tools of scientific and technological development. *Gottschalk* v. *Benson*, 409 U.S. 63, 67. Hence, trade secret protection of the Pythagorean Theorem, the binomial theorem, or the general theory of relativity, is as harmful to the federal policy of free access to basic tools of science as the grant of patents on them, and thus preempted. Such laws are preempted under the *Goldstein-Benson* test, in order to implement patent policy. Similarly, when Congress prohibited patents on otherwise patentable machines that are nuclear weapons (42 U.S.C. 2181), it did not leave it open for the states to grant alternative protection. The paradox and lack of ascertainable policy that petitioner has found is simply the consequence of insufficient discrimination in analysis to permit the policies at stake to be discerned.

use works a forfeiture[9] is not decisive. If the processes never were patentable in the first place, it is inappropriate to reason on the basis of an election to forego or forfeit the right to a patent; moreover, state law protection would not interfere with the public disclosure policy of the patent system. If the processes were patentable in the first place (under the standards of §§ 101, 102, and 103), then diversion of inventions from the patent system would have occurred in this case; but then the forfeiture argument would seem to be superfluous.[10] The only real significance of the lapse of the one-year period is that it conclusively establishes that petitioner was not still in the process of perfecting an application for patent.[11] If petitioner were, then the diversion theory would be

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[9] 35 U.S.C. 102(b) and (c): *Pennock* v. *Dialogue*, 2 Pet. 1; *Metallizing Engineering Co.* v. *Kenyon Bearing & Auto Parts Co.*, 153 F. 2d 516 (C.A. 2), certiorari denied, 328 U.S. 840; *Macbeth-Evans Glass Co.* v. *General Electric Co.*, 246 Fed. 695 (C.A. 6).

[10] This forfeiture is of the right to secure a patent. Hence, it does not follow, without more, that petitioner simultaneously forfeited all right to protection of any kind.

[11] Until 1939, the law allowed two years. In shortening the period to one year, Congress determined that this amount of time properly balanced the interests of the public, which "may have come to believe that the invention is open to anyone," and the inventor:

"In 1839, when the period of 2 years was first adopted, it may have been a proper length of time for an inventor to make up his mind whether or not to file an application for patent. Under present conditions 2 years appears unduly long and operates as a handicap to industry. Reduction of the period would serve to bring the date of patenting closer to the time when the invention is made, and would expedite applications, not only in their filing but also in their progress through the Patent Office."

S. Rep. No. 876, 76th Cong., 1st Sess., p. 1; H. Rep. No. 961, 76th Cong., 1st Sess., p. 1.

inapposite. Trade secrecy protection during the preparation or pendency of an application for patent is not inconsistent with the federal policy of attracting inventions into the patent system.[12] Moreover, because of the relative shortness of the pendency of applications before the Office,[13] the probable impact of such protection on uniformity of regulation is slight.[14]

Finally, it is not sufficient, although it is important, that the processes be statutory subject matter.[15] That fact alone does not establish that they were indeed patentable. If they were unpatentable for want of invention [16] or lack of novelty,[17] then once again not only is the forfeiture argument inapposite, but allowing state law protection would not interfere with the policies of the patent statute (although it might interfere

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[12] 35 U.S.C. 122, which protects confidentiality of pending applications, is consistent with this interpretation of the limits of the diversion rationale.

[13] The average pendency of applications is now 24 months and the Patent Office intends to reduce that figure to 18 months in two years. Gottschalk, Address Before Am. Pat. L. Assn., St. Paul, Minn., May 10, 1973. p. 5.

[14] The only possible effect on federal policy would be by lengthening the total period of protection. Cf. *Brulotte* v. *Thys* Co., 379 U.S. 29; *Stiffel*, *supra*, 376 U.S. at 231. See also *Lear*, *supra*, 395 U.S. at 682, n. 2 (concurring opinion of Mr. Justice White). It would seem that such effects may be outweighed by other policies and may be minimized in various ways. See, generally, Stern, *Antitrust Implications of Lear* v. *Adkins*, 52 J. Pat. Off. Soc. 213, 222–223 (1970) (discussion of pre-issuance royalties).

[15] 35 U.S.C. 101.

[16] 35 U.S.C. 103.

[17] *E.g.*, by reason of prior use or publication by another, 35 U.S.C. 102(a) and (b); *Electric Battery Co.* v. *Shimadzu*, 307 U.S. 5; *Smith* v. *Hall*, 301 U.S. 216.

with the national policy favoring competition, discussed in point C, *infra*). State law protection of patentable trade secrets is preempted, if and only if the availability of such protection diverts inventions from the federal system,[18] and such diversion occurs only in the case of discoveries which were patentable (under 35 U.S.C. 101, 102, and 103) when the trade secret claimant discovered them.

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[18] This is not to conclude, however, that state law is never and in no form to be applied to conduct involving patentable trade secrets. Such conduct could involve a paramount or preeminent state interest. In a case, for example, of burglary of a factory, theft of blueprints, or bribing an employee—to obtain patentable secret information—the state is free to punish the burglary, theft, or bribery, *as such*, just as it would punish any other such offense. Conduct of this type is at least potentially violent and is generally deemed highly disruptive—thereby satisfying the test of *San Diego Building Trades Council* v. *Garmon*, 359 U.S. 236, for nonpreemption. Moreover, the existence of such state remedies can hardly furnish a significant incentive to eschew the patent system, so that there would be only a peripheral or slight impact on federal policies if state law were permitted to operate concurrently in this respect. We therefore conclude that a general state law against all theft or burglary would not be preempted merely because the object of the theft or burglary was a set of secret blueprints or chemical formulations. Cases such as *United States* v. *Greenwald*, 479 F. 2d 320 (C.A. 6), certiorari denied, 414 U.S. 854 (No. 73–24), involving federal prosecutions under 18 U.S.C. 2314 for interstate transportation of stolen "goods, wares, or merchandise" are inapposite here because they could not raise a preemption question under the supremacy clause. It may be noted, however, that such cases involve the theft of documents or other tangible things embodying trade secrets, rather than the "theft" (if there can be one, see *Graham*, *supra*, 383 U.S. at 8, n. 2, quoting T. Jefferson) of ideas, as such. The federal scheme is thus seen to have been restricted by Congress to the same sphere suggested here as applicable to state action.

C. NATIONAL COMPETITION POLICY PREEMPTS STATE PROTECTION OF TECHNOLOGY THAT IS UNPATENTABLE BECAUSE NOT NOVEL BUT DOES NOT PREEMPT OTHERWISE PROPERLY LIMITED PROTECTION OF NOVEL TECHNOLOGY THAT IS BELOW THE INVENTIVE LEVEL

With respect to secrets that are unpatentable because they are not novel (35 U.S.C. 102) or because they are obvious (35 U.S.C. 103) but that fall within the subject matter of the patent statute (35 U.S.C. 101), national competition policy preempts a portion of the field but does not preempt the remainder so long as the relief granted by state courts is properly limited.

1. National competition policy preempts State trade secret protection of subject matter that is not novel under 35 U.S.C. 102

Protection of technology that is not "novel"—in the Section 102 sense that it has been disclosed previously in prior art (*e.g.*, magazine articles, patents, products on the market)—should be preempted because such non-"novel" technology is "in the public domain." Protection of technology that is novel but below the inventive level specified in Section 103 of the Patent Code (*i.e.*, obvious advances in the art) is not generally preempted. Deciding whether there is preemption in cases involving secrets which are unpatentable as obvious, however, requires consideration of other factors.

Though it has sometimes been held that a trade secret injunction may issue against the practice of a process already disclosed (*e.g., Franke* v. *Wiltschek,* 209 F. 2d 493 (C.A. 2)), such decisions are wrong for they permit the arrogation by the proprietor of the alleged secret of a portion of the public domain, at least of what 35 U.S.C. 102 (a) and (b) consider the public domain. The better

view is that expressed in more recent cases such as *American Gage & Mfg. Co.* v. *Maasdam,* 245 F. 2d 62 (C.A. 6), that decline such protection. Ideas, once they are set free, cannot become the property of anyone, *Lear, Inc.* v. *Adkins,* 395 U.S. 653, 665–666, 668, 670, 674, nor can a state, consistently with the supremacy clause, grant injunctions against the use of ideas which Congress intended to be free from restraint. *Scott Paper Co.* v. *Marcalus Mfg. Co.,* 326 U.S. 249, 255–257; *Goldstein* v. *California,* 412 U.S. 546, 559. State protection must be preempted lest it disturb the careful economic balance between competition and monopoly that Congress has struck.

The concept of arrogation of the public domain seems less applicable in the case of technology that is novel under Section 102 but obvious under Section 103. The interference with national competition policy is certainly less clear, at least if the state protection is carefully limited. The question of preemption should turn on a balance of the degree of interference with the federal plan of competition and monopoly and the possible state interests.

A variety of relatively insubstantial state interests have been articulated: states should be permitted to add to the federal patent incentive to research and development; state protection avoids the greater expense of self-help measures; states have an interest in higher standards of commercial morality. More persuasive than these is the basic interest in federalism which decrees that state law should not be disturbed unless it significantly interferes with federal policy. Cf. *Ferguson* v. *Skrupa,* 372 U.S. 726. In the

case of patentable secrets, there is interference in the very core area marked out for federal protection. But in cases concerning obvious technology, federal concern is relatively peripheral.

2. National competition policy preempts perpetual injunctions to enforce trade secret rights

State trade secret injunctions—whatever technology they are to cover—must under the national competition policy be limited, in any event, to an injunction for a period limited by both "headstart," the time required to rediscover the secret independently,[19] and the time during which the secret does not actually become known (see *Conmar Products Corp.* v. *Universal Slide Fastener Co.*, 172 F. 2d 150 (C.A. 2) (L. Hand, C.J.)). A perpetual injunction comes very close to a grant of patent protection for the secret, and that constitutes significant intrusion into the area of the federal patent statute warranting preemption. The injunction granted by the district court in this case was limited in duration to the actual period of continued secrecy. It should also have been limited by the period of projected secrecy, a period measured by determining how long it would have

[19] The concept of headstart is discussed in the separate opinion of Mr. Justice White in *Lear*, *supra*, 395 U.S. at 682, n. 2. Headstart and independent rediscovery are complementary notions. The length of a headstart is limited by the time independent rediscovery takes. Reverse-engineering time—the time it would take to determine how a product was made, once that product is on the open market—is a well-recognized form of measuring independent rediscovery time. See, *e.g.*, *Hampton* v. *Blair Mfg. Co.*, 374 F. 2d 969 (C.A. 8), certiorari denied, 389 U.S. 829; *Northern Petrochemical Co.* v. *Tomlinson*, 484 F. 2d 1057 (C.A. 7); Note, *The Trade Secret Quagmire—A Proposed Federal Solution*, 50 Minn. L. Rev. 1049 (1966).

taken to have rediscovered the technology independently—perhaps by means such as reverse-engineering—once products embodying that technology were available. The injunction should be limited in terms of both actual and projected secrecy periods and the case should be remanded for a determination of the projected secrecy period and a corresponding further limitation of the injunction.

The national competition policy favors this result for two reasons. First, such a result takes full account of the concept that technology in the public domain may be freely used, the *Conmar* limitation covering technology already in the public domain and the *Hampton-Northern Petrochemical* limitation covering when other technology can reasonably be expected to enter the public domain. Second, imposing such limitations on injunctive relief furthers the mobility of employees. See *United States* v. *Addyston Pipe & Steel Co.*, 85 Fed. 271, 279, 280 (C.A. 6), affirmed, 175 U.S. 211. See, also, *Wilson* v. *Clarke*, 470 F. 2d 1218 (C.A. 1); *E. W. Bliss Co.* v. *Struthers-Dunn, Inc.*, 408 F. 2d 1108 (C.A. 8); Blake, *Employee Agreements Not to Compete*, 73 Harv. L. Rev. 625 (1960). This policy of employee mobility is particularly important where, as here, the employees involved are likely to be scientists and engineers—often significant contributors to production.

III

THE UNITED STATES BELIEVES PREEMPTION IS NOT APPROPRIATE

The position of the United States is that state trade secret law may not properly be held preempted by federal patent law or by federal antitrust law. The

decision of the Court of Appeals for the Sixth Circuit should be reversed and the judgment of the district court reinstated.

We believe that the argument for preemption fails on its own terms and will attempt to show why. But we believe also that the nature of the arrangements protected by state law has generally been misperceived and that additional, useful perspective is gained by discussion of that question at the outset.

A. THE PROTECTION OF TRADE SECRETS IS AKIN TO STATE LAWS ENFORCING PARTNERSHIP ARRANGEMENTS AND SERVES A SIMILAR VALUABLE ECONOMIC PURPOSE

The state law at issue here permits one who possesses technological information unknown to others to disclose it to partners or employees upon the condition that they will not use the information so gained in an independent enterprise. A variety of legal doctrines may be and are used to explain the willingness of the law to enforce the condition or promise. Here a state law operates on the legal theory of fiduciary obligations. It is apparent, however, that the protection of fiduciary obligations is not an end in itself any more than the enforcement of promises is the ultimate end served by state court protection of partnership agreements or employment contracts. As in these latter instances, the value served by the state law in this case is the efficient organization and operation of economic enterprises. That is a legitimate state interest and one served by a wide variety of state laws and policies.

The possessor of commercially valuable information may find that its effective use requires more than

one person to practice it. A technique for growing large crystals can hardly be practiced by a single person on the scale that public demand would support. Similarly, a customer list may be a virtually useless asset unless its contents can be shared with an organization. Yet the person with such a valuable asset will realize that divulging it to others is likely to destroy its value since the others will then have an incentive to sell the knowledge or to leave and use it themselves. Hence the possessor of valuable information often requires that employees to whom it must be imparted promise, in return for employment, not to divulge the information or practice it independently.

State law that enforces such express or implied obligations makes possible the use of information on an economically efficient scale—to the benefit of the possessor, his employees, and the consuming public. The obligation that makes that efficiency possible through the economic cooperation of individuals very closely resembles Judge Taft's categories of valid ancillary restraints in *United States* v. *Addyston Pipe & Steel Co.*, 85 Fed. 271, 281 (C.A. 6), and has social value for the same reason cited by Taft (*id.* at 280):

> [W]hen two men became partners in a business, although their union might reduce competition, this effect was only an incident to the main purpose of a union of their capital, enterprise, and energy to carry on a successful business, and one useful to the community. Restrictions in the articles of partnership upon the business activity of the members, with a view of securing their entire effort in the common enterprise were, of course, only ancillary to the main end of the union, and were to be encouraged.

In the case of a trade secret, of course, the union of the parties does not reduce competition since the persons to whom the secret is divulged in the course of their employment would not, absent the union and the disclosure incident to it, have been in a position to compete. Should federal law be held to oust state enforcement of obligations of secrecy, the result will not be a flow of free information to the public. Those in possession of trade secrets will be unable to use them at the efficient scale of operation, to the detriment of the public, and there will be a similarly harmful decline in the incentive to develop and perfect commercially valuable information. The net impact will be injurious to the public in just the same manner as if state laws enforcing partnership arrangements or corporate charters were declared invalid, although the magnitude of the injury would be different.

To these observations it might be replied that the effects of preemption need not be deleterious since federal patent law is available to serve much the same function as state trade secret law. But that reply is not adequate. Patent law covers only part of the range of information that may be protected by trade secret law. A new rule that only that portion of state law is preempted that protects patentable information has a clarity in statement that will prove spurious in practice. The distinction between the patentable and the unpatentable is often difficult to perceive and the suggested rule would require the possessor of information to guess in advance what the Patent Office and the courts might ultimately conclude. Should he guess wrongly, in either direction, he would either acquire an

invalid patent in return for disclosing his information or he would divulge his secret in return for promises of confidentiality that could be freely and lawfully breached. Moreover, even if he guesses correctly that his information is unpatentable and therefore opts for trade secret protection, he will (under the rules of partial preemption proposed in Part II, *supra*) likely be forced to litigate the patentability issue in any trade secret action, a heavy additional burden that will severely lessen the benefit of even the portion of trade secret law that remains unpreempted.

These clearly foreseeable results argue against preemption of state trade secret law, as does the presumption in favor of the validity of all state laws. The conclusion of preemption should be rejected, therefore, unless there are strong considerations that impel it. We shall argue that there are not.

B. STATE TRADE SECRET LAW HAS NOT BEEN SHOWN TO INTERFERE WITH FEDERAL PATENT POLICY

The presumption of the validity of state laws is particularly strong where the state law in question has for many decades existed side by side with the federal law which is for the first time said to preempt it, not expressly but by implication. In such cases the showing that the state law interferes with federal policy should be solid if not compelling. There is no such showing in this case.

The point becomes clear if one examines the concept of "interference" as it is used here. The argument for preemption notes that federal patent policy offers a 17-year monopoly in return for disclosure of the invention. State trade secret law is claimed to undermine

the federal policy by offering inventors an alternative mode of protection so that some inventions will not be disclosed to the Patent Office. If the diversion is "significant," preemption follows. If there is "a mere possibility of inconvenience," preemption does not follow. Preemption, it is then concluded, is called for here.

There are two major flaws in this argument. The first is in the failure to establish that it is federal policy to insist upon the exchange of disclosure for the 17-year monopoly rather than simply to offer the exchange. The second, if the first were surmounted, is the failure to establish that there is, in fact, a "significant" diversion of patentable inventions from patent protection to trade secret protection.

The argument that the patent law evidences insistence upon the exchange of information for the monopoly, rather than a mere offer of an exchange, rests essentially upon the existence of the statute and upon statutory and judicial disfavor toward inventors who practice their inventions in secret and then belatedly apply for a patent monopoly. The bare existence of the statute, however, may obviously be explained on either hypothesis. The statutory and judicial rule of disfavor merely requires an inventor to opt for one form of protection or the other rather than seek to cumulate them. That this rule represents hostility to the tactic of adding to the 17-year patent monopoly rather than disfavor of state trade secret laws may be seen from the fact that the rule applies whether or not the inventor has or could have availed himself of any state protection for his secret.

The opposite inference, that the patent laws offer but do not insist upon the exchange, is better founded. Patent law and trade secret law have co-existed for many decades and Congress has never suggested that the effect was to undermine patent policy. To the contrary, Congress has, in a number of other statutes, recognized the existence of trade secret protection and afforded federal protection for information supplied to federal agencies.[20] Surely, if confidentiality of technical information conflicted with a policy of Congress, then compelled regulatory disclosures would be a logical point at which to enforce the policy. At the very least, Congress would not affirmatively protect secrets whose existence undercut its own policy. And, no matter what rationalizations are offered to explain away congressional solicitude for trade secrets, the stubborn fact remains that Congress has repeatedly demonstrated full awareness of the trade secret system and has never, in any particular, indicated any disapproval of it. That fact alone would seem virtually to preclude a finding of implied preemption of that system by Congress.

That should be an end of the matter, but if we grant, *arguendo,* that there exists, nevertheless, a federal policy of insisting upon the exchange of a monopoly for disclosure, the contention that there is, in fact, a significant interference with that policy fares no better. The conclusion of "significant" interference necessarily rests upon a judgment as to the amount of diversion that should be considered excessive as well as an em-

[20] See Pet. 13, n. 5.

pirical determination of how much diversion in fact exists.

Unfortunately for the argument in favor of preemption, the record of this case does not contain information that would permit a determination of the relative number of cases in which inventors are diverted from the patent system by the availability of state protection for trade secrets. Those within the government who favor preemption attempt to make up for this lack of factual material by offering two other bases for judgment. First, as a matter of inference, it is said to seem likely that more business organizations would apply for patents if they faced the prospect that their employees could, free of legal sanction, appropriate the firm's non-patented technology to their own use. Second, practitioners in various writings have reported that firms do in fact from time to time choose secrecy over patent protection.[21]

The argument from common-sense plausibility fails because it gives no idea of the crucial issue: the order of magnitude of the supposed diversion. That factual inquiry is particularly complicated because the crucial issue for the preemption decision is the extent to which state law protection causes firms to

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[21] Frost, *Patent Rights and the Stimulation of Technical Change*, *Patents and Progress* (Anderson, Terpstra, and Shapiro ed.) 61, 67–68; Oppenheim & Weston, *Unfair Trade Practices* 265–267; Milgrim, *Trade Secret Protection and Licensing—A True Alternative*, 4 Pat. L. Rev. 375 (1972); Orenbuck, *Trade Secrets and the Patent Laws*, 52 J. Pat. Off. Soc. 628, 665 (1970). Frost, *supra*, at 68, states that trade secret protection has already supplanted the patent system in a number of fields of technology (*e.g.*, plastic compositions, alloys, photographic emulsion manufacture).

rely on secrecy, not the extent to which they do in fact rely on secrecy. Even absent protective state law, some firms would be likely to choose secrecy over patent protection and disclosure. The question is the size of the increment of diversion due to state law that provides injunctions against persons who obtain the secret by a breach of obligation. An additional complication in arriving at a reliable factual estimate is that many persons who rely upon state law did not have the option of using patent protection, since their secrets, though valuable, were not patentable. This means that gross observations of the numbers of firms using state protection tell little about the numbers that were diverted from the patent system.

The argument that preemption is appropriate is, therefore, unduly weak and speculative in its assumptions both about the policy of the patent statute and about the actual impact of state laws upon that policy. Those assumptions do not begin to approach the degree of certitude that should be required when it is proposed to destroy an ancient and well-established body of state law by mere implication from the existence of a federal statute. The questions here are empirical and legislative and hence better suited to the factual investigations and policy judgments of Congress. The fact that Congress is clearly aware of trade secret law and has taken no action to disturb it strongly suggests that the asserted disruptive effect upon patent policy does not exist.

Here, even more clearly than in *Florida Lime & Avocado Growers* v. *Paul*, 373 U.S. 132, 141, "there is

neither such actual conflict between the two schemes of regulation that both cannot stand in the same area, nor evidence of a congressional design to preempt the field." Instead, there are two bodies of law that have coexisted for decades without previous suggestion of conflict and such evidence of congressional design as exists weighs against preemption.

Given the weakness of the argument for preemption by implication—which is essentially an argument that Congress would have outlawed state trade secret laws if it had thought about them—it would be improper at this late date to destroy the commercial interests and rooted expectations that have grown up in reliance upon this body of established doctrine.

C. PREEMPTION COULD NOT BE TOTAL AND WOULD RESULT IN AN UNWORKABLY COMPLICATED BODY OF LAW

We do not understand anyone to suggest that federal law preempts all state trade secret protection, and, indeed, total destruction of trade secret protection is clearly unwarranted. State law often protects commercial information such as customer lists, methods of conducting business, and technological innovations that are, for one reason or another, unpatentable, and these, presumably, would remain protectable under the harshest preemption doctrine.

Partial preemption would, if decreed, result in making state trade secret law unworkably complicated. The view within the government set out in Part II, *supra,* of this brief argues that preemption is required because of the patent laws only if a secret would have been patentable under the standards of 35 U.S.C. 101, 102, and 103. The holder of a patentable

trade secret, however, may still prevail under state law if he can show that he elected to rely on trade secret rather than patent protection in a reasonable, good faith belief that his secret was unpatentable. The first result of this position would be to complicate trials in trade secret cases enormously. The initial stage would be a patent litigation with the party resisting relief trying to establish that a valid patent could have been obtained had one been sought and the party claiming the secret seeking to prove the invalidity of that hypothetical patent. If the secret was held previously patentable, the trial would move on to the issue of the secret owner's reasonable, good faith belief as to patentability at the relevant date in the past. A theory of preemption that requires state courts to try not merely issues of state trade secret law but the issues appropriate to federal patent litigation, plus the reasons for not seeking a patent, creates so much awkwardness and complexity that it ought certainly to be eschewed unless its rationale is so compelling as to be unavoidable.[22]

To this patent preemption theory is added the further complications of a preemption asserted to flow from "national competition policy." We will suggest later that there is no reason for the Court to enter upon that topic in this case. We point out

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[22] While under *Lear, Inc.* v. *Adkins*, *supra*, state courts are now required to decide issues of patentability in suits to enforce patent licenses, the federal question of patentability in such cases is central to the issue of whether a federally conferred monopoly should be judicially enforced and is presented without the overlay of complexities that would be involved here.

here merely that the scheme proposed would lead to additional trial complications. If the person seeking to protect his secret established to the satisfaction of the court that it would have been unpatentable at the time it was learned, he would have to prove also that the secret was novel but obvious. If it was not novel, then it was in the "public domain" and unprotectable. Should he survive that test, the secret owner would have to litigate the issue of how long it might take someone else to reinvent his secret in order to determine the length of the proper injunction. He would likely have a poor time on that issue, having just convinced the court that his secret was unpatentable because obvious.

This is, apparently, not a field in which federal preemption operates on a rationale that simply ousts state law and thereby simplifies matters. Rather, preemption on the rationales available would enormously complicate trials. In many, perhaps most, cases the result would be to make the protection of trade secrets so expensive that the cost of enforcement would effectively foreclose resort to state law even when the rationale of federal preemption did not.

D. STATE TRADE SECRET LAW IS NOT PREEMPTED BY "NATIONAL COMPETITION POLICY"

The general concept of "national competition policy" has too little definition to provide a source of preemption. The aspect of that policy relevant here would appear to be the Sherman Act. In a field as diverse as trade secret law, involving the enforcement of many different kinds of agreements under

widely differing circumstances, it is difficult to see how the competitive policy of the Act could be said to preempt any entire category of law.

The Sherman Act is typically applied on a case-by-case basis, striking down or preserving arrangements according to their perceived impact upon competition and consumer welfare. It is sometimes possible, as in the case of price-fixing between competitors, to state a general rule of illegality at once, but usually the courts proceed case-by-case until a general pattern becomes clear and experience permits the formulation of a general rule.

We have pointed out that the sharing of a trade secret in order to permit its use on an economically practical scale is a phenomenon akin to the joining of men possessing different talents and assets into a partnership or a corporation. As such, trade secret agreements are obviously capable of either creating socially valuable efficiencies or of suppressing competition illegally. That is a quality they share with partnerships, corporations, and mergers because these are all forms of economic integration, necessary to production, and hence not susceptible to *per se* condemnation as price-fixing conspiracies are. To find preemption on Sherman Act grounds would be, improperly we believe, to fashion a rule of *per se* illegality for an entire class of agreements not economically distinguishable from partnerships.

There is no evidence in this record that the mere existence of state trade secret remedies has an anti-competitive effect. Even if one ignores consumer welfare and asks only about the effect of the law upon

small firms, no single answer may be given. An established firm may invoke trade secret remedies to prevent its employees from beginning a new firm using the information disclosed to them in the course of their employment. That hardly seems a design to monopolize, however, since the information would have been unavailable altogether if the promise against separate use had not been given. It is equally true, moreover, that some small firms may survive only because they possess unique information and know-how. In the absence of state trade secret protection, larger rivals could freely hire away an employee and the information. It is simply not possible to determine from the record in this case the effect of state trade secret law on the competitive process.

It is of course possible that employment covenants, state trade secret law, and other devices could be used illegally to monopolize a line of commerce or restrain trade. Upon appropriate proof, there would be a violation of the Sherman Act. But no such showing has been made here. Kewanee has three competitors, and the record shows that its market position in the sale of the single product involved has resulted in part from continuous technological advances resulting from its own research (Pet. App. A2). These advances have been made by Kewanee's own personnel. There has been no effort to acquire the technology of others or to prevent competitors from obtaining access to technology publicly available.

The arguments already advanced in opposition to patent preemption—the absence of significant interference, the coexistence of the two bodies of law for

many years, Congress' knowledge and apparent acceptance of the state laws, the interests and justified expectations that have grown up—all militate as well against a partial preemption of state trade secret law by the Sherman Act.

CONCLUSION

For the foregoing reasons the decision of the Court of Appeals for the Sixth Circuit should be reversed and the judgment of the district court reinstated.

Respectfully submitted.

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No. 73-187

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vs.

BICRON CORPORATION, *et al.*,
Respondents.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

SUPPLEMENTAL BRIEF OF RESPONDENTS BICRON CORPORATION ET AL. IN RESPONSE TO THE "BRIEF FOR THE UNITED STATES AS AMICUS CURIAE"

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SUPPLEMENTAL BRIEF OF RESPONDENTS BICRON CORPORATION ET AL. IN RESPONSE TO THE "BRIEF FOR THE UNITED STATES AS AMICUS CURIAE"

Foreword

This brief is submitted on behalf of respondents Bicron Corporation et al. in response to the "Brief For The United States As Amicus Curiae" which was filed in this case on or about April 8, 1974. The case was argued on January 9, 1974.

I. The Presumptions Should Favor Our National Policy of Free Competition

The Government says (G.B. 7) that there is "no showing in this case or adequate basis for presuming that a substantial diversion of patentable inventions from the federal patent system is caused by state trade secret laws." The government acknowledges (G.B. 34) that the record in the case does not contain information as to the impact of the state trade secret laws on the patent system and the degree of diversion from the patent system by the state trade secret laws. The Government properly observes (G.B. 35) that such questions are empirical and legislative and are better suited to the factual investigations and policy judgments of Congress.[1]

There is a strong federal policy favoring free competition in ideas which do not merit patent protection. *Lear, Inc. v. Adkins*, 395 U.S. 653, 656 (1969). This is but one facet of a broader national policy of free competition which permits the marketplace to allocate our economic resources, the premise being that this will bring about the greatest material progress and both preserve and promote our political and social institutions. *Gulf States Utilities Co. v. F.P.C.*,—U.S.—36 L. Ed. 2d 635, 644-6 (1973); *United States v. Topco Associates Inc.*, 405 U.S. 396, 410 (1972); *United States v. Philadelphia National Bank*, 374 U.S. 321, 372 (1963); *Northern Pacific RR v. United States*, 356 U.S. 1, 4 (1958). The policy stems from the English "Statute of Monopolies". The patent system is an exception to the anti-monopoly, free-competition policy and so would be any restrictive state trade secret system.

The national policy of free competition in ideas which do not merit patent protection and free competition in the

[1] Committees of Congress have in fact conducted hearings and made studies. Bicron has cited those studies in its brief, pp. 12 and 13.

marketplace is a *strong* federal policy. The burden should be on the party which seeks to restrict competition to justify what it seeks. The presumptions in an admittedly confused factual situation should favor free competition.

The burden should be on petitioner and its amici to justify the restraints which they seek to impose on free competition. The presumptions should be in favor of free competition and the established national policy, not against it as the Government suggests.

II. The Issue Is Controlled by Prior Decisions of This Court

The Government argues (G.B. 8) that the issue is not controlled by the prior decisions of this Court. The Sixth Circuit, however, clearly felt that it was.

Bicron respectfully refers this Court to the careful analysis of legal precedent made by the Sixth Circuit (Pet. App. 8-24).

In *Sears, Roebuck and Co. v. Stiffel Co.*, 376 U.S. 225 (1964), in particular, this Court said:

"Obviously a State could not, consistently with the Supremacy Clause of the Constitution . . . give a patent on an article which lacked the level of invention required for federal patents. To do . . . [so] would run counter to the policy of Congress of granting patents only to true inventions. . . . Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that prohibiting unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws." (376 U.S. at 231).

III. The Perpetual Injunction of the District Court Cannot Be Justified

It is significant that the brief of the Government does not even try to justify the perpetual injunction of the district court. That view within the Government which is reflected by Part II of the Government brief wants, in certain circumstances, a reverse engineering injunction. It deplores the perpetual injunction (G.B. 26 & 27). Part III of the Government brief speaks of partnership contracts[2] and cites *United States v. Addyston Pipe* (G.B. 29), but nowhere does it discuss the perpetual injunction as such.

The grant of a perpetual injunction cannot be justified.

IV. The Government's Arguments Supporting the Economic Purposes Served by State Trade Secret Laws Should Be Disregarded

Part III of the Government brief (G.B. 28) argues that state trade secret laws serve a valuable economic purpose. This, however, is pure conjecture and should be disregarded, particularly in view of the Government's own admission that it is not possible to determine from the record in this case the effect of state trade secret law on the competitive process (G.B. 40).

It should also be disregarded because the preemption test is not the *purpose* of the state law vs. the federal law but the effect of the state law, whatever its purported purpose might be, on the federal law. Were it otherwise, state legislatures could "nullify nearly all unwanted fed-

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[2] An employee of a large corporation is not a "partner" (G. B. 29 & 30) and is not in an equal bargaining position with the corporation. The effect of the decision of the district court is to restrict freedom of opportunity and freedom of employment. See pages 16-20 of the amicus briefs of the National Patent Council and National Small Business Association.

eral legislation by simply publishing a legislative committee report articulating some state interest or policy—other than frustration of the federal objective—that would be tangentially furthered by the proposed state law." *Perez v. Campbell*, 402 U.S. 637, 652 (1971).

V. The Policy of the Patent Statutes Is to Promote Progress in Science and Useful Arts for the Public Benefit

The Constitution authorizes a patent system to promote progress in science and useful arts, (Art. I, Sec. 8, Cl. 8) and its *raison d'etre* is *public benefit*, with reward to the inventor secondary.[3]

The patent laws reflect Congressional judgment as to both

> (a) subject matter (35 U.S.C. 101) of sufficient public benefit (judged in light of 35 U.S.C. 102 and 103) to justify the offer of a reward for prompt and full disclosure, and
>
> (b) subject matter to which the public is entitled (under 35 U.S.C. 102 and 103) in any event so that a reward for disclosure cannot be justified.[4]

This Court has consistently held that inventors do *not* have a "natural" right to their ideas and that the patent

[3] The Court is urged to reread with care the Government's *Sears-Compco amicus* brief at pp. 15-33 and its *Lear* brief at pp. 9-26. In both these earlier briefs, the Government squarely acknowledged the paramount public interest which is the touchstone of federal patent policy.

[4] In strict accord with earlier decisions of this Court and with the Sixth Circuit, a recent article by a government lawyer concludes that commercial exploitation of a completed invention for more than one year is a public use under 35 U.S.C. 102(b) "whether or not the use was secret." McCaul, "Applicability of the Public Use Bar Provision of 35 U.S.C. 102(b) to Patentability of a Completed Invention Used at a Government Installation", 56 J. PAT. OFF. SOC'Y. 143, 160 (1974).

system was a creature of positive law to advance the paramount public interest. *Pennock v. Dialogue,* 27 U.S. 1, 16-17 (1829); *Shaw v. Cooper,* 32 U.S. 290, 318 (1833); *Gaylor v. Wilder,* 51 U.S. 477, 490 (1850); *Brown v. Duchesne,* 60 U.S. 183, 195 (1888); *Kendall v. Winsor,* 62 U.S. 322 (1858); *Graham v. John Deere Co.,* 383 U.S. 1, 8 (1966).

VI. The Patent Statutes Invite But Do Not Compel Disclosure

No one argues (G.B. 32) that the patent laws compel an inventor to disclose his inventions in exchange for the 17-year monopoly of a patent. The idea is that they should provide the incentive for such disclosure, in return for personal gain. In an interview, Senator McClellan put it this way:

> "Q. Do you associate a patent with a monopoly of any sort?
>
> A. Well, a patent is a monopoly of sorts, and it is intended to be, to protect the inventor, to encourage invention. It operates as an incentive to people not only to invent but to disclose the invention and make it available for the benefit of the economy, for the benefit of people. A fellow might discover a remedy (this is a crude illustration) that would cure, say, cancer. Suppose, a doctor makes a discovery and he says, I'll just keep this discovery secret. I'll become a specialist. I'll have the patients, since I'm the only one who can cure them. If not discovered by someone else, his invention would die with him. That would be wrong. But, you give him an incentive to disclose his invention and still maintain control for a limited period of time, and allow him to make a profit out of it, and all knowledge will be advanced. I think the system has worked marvelously. I don't mean it's per-

fect. I'd like to strengthen it, improve it, but not abolish it or make it so restrictive or so liberal that it would not be effective."[5]

The Senator's remarks remind us of what actually happened with obstetrical forceps, which were held as a secret by several generations of doctors.[6] If an assistant of one of those doctors had left and used those forceps to assist child delivery, should he have been enjoined?

VII. Patent Law—Trade Secret Law Coexistence

There are many trade secrets to which the patent laws neither extend nor refuse protection—e. g., certain computer programs,[7] business information including accounting methods, sales plans, customer lists, etc.[8]—and on which the states *may* grant protection.

Congress has likewise neither refused nor extended federal patent protection to inventions which are not yet completed or which have been in public use less than one year or are the subject of pending patent applications.[9] *Goldstein et al v. California*, 412 U.S. 546 (1973) goes far toward suggesting that state law protection in these areas

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[5] Interview with Senator John L. McClellan published in the Monsanto Magazine, Winter 1973 issue, pp. 17-21, copies available from the "Association For The Advancement Of Invention And Innovation", an amicus in this case.

[6] Proposals For Improving The Patent System" — Study of the Subcommittee on Patents, Trademarks and Copyrights of the Committee on the Judiciary, United States Senate, 1956, p. 3.

[7] See *Gottschalk v. Benson*, 409 U.S. 63 (1972).

[8] See, *e. g., Clark v. Bunker*, 453 F.2d 1006 (9 Cir. 1972) relating to a trade secret constituting a prepaid funeral service plan and *Board of Trade v. Christie Grain and Stock Co.*, 198 U.S. 236 (1905), relating to confidential quotations on grain futures.

[9] A circumstance which no doubt had an influence upon this Court's abstention in *Lear, Inc. v. Adkins*, 395 U.S. 653, 675 (1969), from defining the limits of legitimate state law protection, if any, for inchoate patent rights until after "fully focused inquiry" in the state courts.

is permissible, analogously to the state law prepublication protection of common law copyrights expressly authorized in 17 U.S.C. §2. 35 U.S.C. 122 which provides for qualified secrecy of pending patent applications in the Patent Office is consistent with such limited state law protection for inchoate patent rights.[10]

Because trade secret law legitimately applies to subject matter on which the patent laws are silent, it is not surprising that "patent law and trade secret law have co-existed for many decades" (G. Br. 33). The government does not suggest that Congress has ever been specifically apprised of state trade secret law efforts to encroach upon federal patent law or otherwise provided with evidence demonstrating the area of conflict between the two. It is accordingly fair to assume that Congressional "awareness of the trade secret system" (G. Br. 35) is restricted to that system's legitimate ambit.

The Government is wrong in suggesting (G. Br. 33) that since "Congress would not affirmatively protect secrets whose existence undercut its own policy", the use of trade secret law to compete with patents is tacitly approved by legislation requiring government agencies to treat as confidential alleged trade secrets revealed to them in course of complying with Government regulations unrelated to patents. Congress, of course, has a wide range of policies, only a few of which touch upon patents in any way. It is not inconsistent with patent policy for Congress to minimize confrontation concerning the legitimacy of

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[10] The question of whether the qualified secrecy provision of 35 U.S.C. 122 extends to abandoned patent applications on which patents have been refused has never been resolved in a federal court of appeals. The only federal district court case purporting to have decided the issue on its merits, *Sears v. Gottschalk*, 357 F. Supp. 1357 (E.D. Va. 1973) (cited at G. Br. 5, n. 5) is on appeal to, and is presently sub judice in, the Court of Appeals for the Fourth Circuit, having been orally argued on March 6, 1974.

trade secret claims in policy areas which present no patent problem,[11] and where confrontation is hence unnecessary. Nor does such a reservation detract from the right of any affected person, including an agency, to challenge a trade secret claim in conflict with the patent statutes when patent policy is in issue.

VIII. The Sherman Act Approach Should Be Followed Here

In discussing the Sherman Act, Part III of the Government brief correctly observes that the courts proceed on a case-by-case basis until a general pattern becomes clear and experience permits the formulation of a general rule (G.B. 39). This approach is followed because the situations are so complex and varied.

The Court should take a similar approach here. It should affirm the judgment of the Sixth Circuit and not pass on the other issues which have tried to be injected into the case.

Denial of injunctive relief on the grounds of federal preemption does not mean that the underlying contract has to be declared invalid or that damages for its violation cannot be recovered. You do not have to throw the baby out with the bath.

As the Government brief recognizes (G.B. 3, footnote 3), the relief which was granted in this case was based upon the obligations of an employee to his employer which were implied by Ohio law, not the written agreements between the employee respondents and Kewanee. The

[11] *This* point is well made in the student note, "Patent Preemption of Trade Secret Protection of Inventions Meeting Judicial Standards for Patentability," 87 HARVARD L. R. 807 (1974), at 811-813. The ultimate conclusion reached in the note, which is essentially the same as that of Argument Section II of the Government brief is similarly contrary to *Sears*, *Lear* and *Goldstein*.

Court can affirm the Sixth Circuit without invalidating technical service agreements and other contracts involving trade secrets.

Respectfully submitted,

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-187

KEWANEE OIL COMPANY,
Petitioner,

v.

BICRON CORPORATION, *et al.*,
Respondents.

MOTION OF SCM CORPORATION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AMICUS CURIAE AND SUPPLEMENTAL BRIEF AMICUS CURIAE

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Respondents.

MOTION OF SCM CORPORATION FOR LEAVE TO FILE SUPPLEMENTAL BRIEF AMICUS CURIAE

SCM Corporation respectfully moves the Court for leave to file the attached supplemental brief amicus curiae in response to the "Brief for the United States as Amicus Curiae", on the side of respondents.

SCM has previously filed a brief amicus in opposition to the petition in this case, with leave of Court, and a brief amicus on the merits with consent of both parties. SCM's interest in the case has been set forth in the motion and brief filed in connection with the petition and in the brief amicus on the merits.

Leave is requested to file this brief amicus to insure that the Court shall have before it a full exposition of the dispositive precedent and principles which the gov-

ernment inconsistently with its own prior views,[1] has chosen either to ignore or attempt ot distinguish. The attached supplemental brief amicus of SCM makes several important points in this regard which are not advanced in respondent's supplemental brief.

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[1] See the attached supplemental brief amicus, *infra* at p. 1.

IN THE

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SUPPLEMENTAL BRIEF AMICUS CURIAE

The Government brief advances two separate views, both of which run counter to controlling law as explicated in authoritative decisions of this Court. Moreover, both "the view of the United States" as set forth in Argument Section III (G.B. 27-41) and the other "view within the government", set out in Argument Section II (G.B. 11-27) are irreconcilably at war with previous Government positions on the law espoused before this Court in its briefs amicus (a) in the companion cases of *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), and *Sears, Roebuck and Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964), and (b) in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969).

The Government argues (G.B. 8) that the issue here posed is not controlled by the prior decisions of this Court.

The Sixth Circuit, however, reached the opposite conclusion after analyzing the apposite precedent (Pet. App. 8-24), and found itself compelled to conclude

> ". . . that a state trade secret law which protects an inventor in the maintenance of a monopoly of a device which is an appropriate subject for patent under the United States Patent Laws is in conflict with the policies and purposes of those patent laws where the invention has been used commercially for more than one year. By such use the inventor has forfeited his right to a patent but by the use of the state trade secret law he is able to exclude competition and prevent disclosure, thus obtaining protection which he could not obtain under the laws of the United States. . . ."

In so holding, the court below gave particular attention to *Sears, Roebuck, supra.* In *Sears*, this Court held that

> "Obviously a State could not, consistently with the Supremacy Clause of the Constitution . . . give a patent on an article which lacked the level of invention required for federal patents. To do . . . [so] would run counter to the policy of Congress of granting patents only to true inventions. . . . Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that prohibiting unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws." (376 U.S. at 231).

Reference in the quotation to "the level of invention required for federal patents" is mainfestly directd to the standard of invention now codified in 35 U.S.C. 103.[1]

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[1] The same standard of patentable invention has consistently been implemented by this Court since at least as early as *Hotchkiss* v. *Greenwood*, 52 U.S. 248 (1850). This Court has many times asserted that this standard is of constitutional origin, *inter alia*, in *Thompson* v. *Boisselier*, 114 U.S. 1, 11 (1885), *Hollister* v. *Benedict*

But, as the Sixth Circuit correctly appreciated, the holding is equally applicable to preclude state protection of subject matter dedicated to the public by operation of 35 U.S.C. 102(b) through commercial use for more than one year.

The correctness of the decision below is underscored by this Court's later decision in *Goldstein* v. *California*,

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Mfg. Co., 113 U.S. 59, 73 (1885), *Hill* v. *Wooster*, 132 U.S. 693, 700 (1890), *Cuno Engineering Corp.* v. *Automatic Equipment Corp.*, 294 U.S. 84, 91 (1941), *Great Atlantic and Pacific Tea Co.* v. *Supermarket Equipment Corp.*, 340 U.S. 147, 156 (1951), *Graham* v. *John Deere Co.*, 383 U.S. 1 (1966), and *Anderson's Black Rock* v. *Pavement Salvage Co.*, 396 U.S. 57 (1969).

Strict enforcement of this standard of patentability is necessary to realization of the *primary public* purpose of the patent system repeatedly stressed in this Court's decisions beginning with *Pennock* v. *Dialogue*, 27 U.S. 1 (1829) and extending through *Deepsouth Packing Co.* v. *Laitrum Corp.*, 406 U.S. 518 (1972). As emphasized in *Shaw* v. *Cooper*, 32 U.S. 290, 318 (1833), ". . . it was not the intention of this [patent] law to take from the public that of which they were fairly in possession." Expressing essentially the same thought but with particular reference to the requisite level of invention, this Court in *Atlantic Works* v. *Brady*, 107 U.S. 192, 199-200 (1883) again stressed that

> ". . . To grant to a single party a monopoly of every slight advance made, except where the exercise of invention, somewhat above ordinary mechanical or engineering skill, is distinctly shown, is unjust in principle and injurious in its consequences. . . . Such an indiscriminate creation of exclusive privileges tends rather to obstruct than to stimulate invention."

In total harmony, *Graham*, *supra*, found "no change in the general strictures with which the overall test [of patentability] is to be applied. . .", 383 U.S. 1, 19.

The present Government argument that federal concern for free access to "obvious technology" on which patents are precluded by 35 U.S.C. 103 "is relatively peripheral" (G.B. 26) is in the teeth of *Sears* and would effectively nullify the Congressional judgment that such technology must be free to the public. For this reason, the doctrine of *Ferguson* v. *Skrupa*, 372 U.S. 726 (1963) (G.B. 25)—that the Court will not pass on the wisdom of state legislation where federal policy is not significantly invaded—is inapposite.

412 U.S. 546 (1973) which squarely reaffirms Sears as a part of its comprehensive explication of the application of the preemption doctrine to patents and copyrights. In harmony with all of its earlier pertinent pronouncements, this Court in *Goldstein* held that a positive expression by Congress in patent or copyright legislation as to either availability or unavailability of federal monopoly protection is absolutely preemtive and precludes inconsistent state law action, but Congressional silence may leave the field open for state law activity.

As this Court said in *Goldstein*:

> "At any time Congress determines that a particular category of 'writing' is worthy of national protection and the incidental expenses of federal administration, federal copyright protection may be authorized. Where the need for free and unrestricted distribution of a writing is thought to be required by the national interest, the Copyright Clause and the Commerce Clause would allow Congress to eschew all protection. In such cases, a conflict would develop if a State attempted to protect that which Congress intended to be free from restraint or to free that which Congress had protected. However, where Congress determines that neither federal protection nor freedom from restraint is required by the national interest, it is at liberty to stay its hand entirely. Since state protection would not then conflict with federal action, total relinquishment of the States' power to grant copyright protection cannot be inferred."

As applied to existing patent statutes, the holding is clearly that preemptive federal law precludes state protection, both of those categories of "discoveries" that Congress in 35 U.S.C. 101 has deemed to be worthy of national protection and those for which Congress eschewed all protection in 35 U.S.C. 102 and 103.

In this case we have the very conflict which this Court in *Goldstein* expected to "develop if a state attempted to protect that which Congress intended to be free from restraint"—*to wit*, a conflict between Ohio trade secret law and federal patent law resulting from the Ohio attempt to protect by perpetual injunction subject matter which Congress in 35 U.S.C. 102(b) pronounced free from restraint.

The approach counselled by Argument Section II of the government brief whereby only that portion of trade secret law which purports to protect *patentable* information would be preempted not only fails to take account of express Congressional direction concerning what may *not* be patented, but is cumbersome and unworkable for the same reasons which led this Court in *Lear*, *supra*, 395 U.S. at 668, ultimately to cease attempting to compromise state law contract estoppel principles with federal patent law. Similar considerations underlie the *per se* rules concerning unreasonableness of certain restraints of trade under the antitrust laws which this Court has adopted in order to avoid the necessity for "incredibly complicated and prolonged economic investigation into the entire history of the industry involved, as well as related industries" which this Court has noted to be "so often wholly fruitless when undertaken", *Northern Pacific R. Co.* v. *United States*, 356 U.S. 1, 5 (1958).

The government argument (G.B. 32-3) that because disclosure is not *compulsory* under Federal law there is room for state law protection of subject matter which inventors choose *not* to disclose, lacks statutory, precedent and logical basis. The Federal law seeks to encourage disclosure of *patentable* inventions for the primary benefit of the public but does not regard disclosure as an end in itself. *Per contra*, disclosure of patentable inventions is the *means* chosen by Congress for achieving the constitutionally required public benefit. Hence those who

use *this* means to confer public benefit are deserving of reward. The policy necessarily acts equally to preclude reward, state or federal, both to those who elect *not* to use the authorized means of conferring public benefit and those who disclose subject matter from which the public can derive no benefits because of its own prior entitlement under 35 USC 102 or 103.

CONCLUSION

The government brief should be disregarded and the decision below affirmed.

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KEWANEE OIL CO. *v.* BICRON CORP. ET AL.

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

No. 73–187. Argued January 9, 1974—Decided May 13, 1974

Harshaw Chemical Co., an unincorporated division of petitioner, over a period of years developed certain processes in the growth and encapsulation of synthetic crystals and purification of raw materials, some of which processes were considered to be trade secrets; it eventually succeeded for the first time in growing a 17-inch crystal of a type useful in the detection of ionizing radiation. The individual respondents, former employees of Harshaw who while working there had signed agreements not to disclose trade secrets obtained as employees, formed or later joined respondent Bicron Corp., which competed with Harshaw in producing crystals; Bicron, soon after its formation, also grew a 17-inch crystal. Petitioner brought this diversity action seeking injunctive relief and damages for misappropriation of trade secrets. The District Court, applying Ohio trade secret law, granted a permanent injunction. The Court of Appeals reversed on the ground that Ohio's trade secret law conflicted with the federal patent laws. *Held:* Ohio's trade secret law is not pre-empted by the federal patent laws. Pp. 474–493.

(a) The States are not forbidden to protect the kinds of intellectual property that may make up the subject matter of trade secrets; just as the States may exercise regulatory power over writings, *Goldstein* v. *California*, 412 U. S. 546, so may they regulate with respect to discoveries, the only limitation being that regulation in the area of patents and copyrights must not conflict with the operation of federal laws in this area. Pp. 478–479.

(b) Abolition of trade secret protection would not result in increased disclosure to the public of discoveries in the area of nonpatentable subject matter, and the public would not be benefited by disclosure of such discoveries. Pp. 482–483.

(c) The federal patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invention such as trade secret protection, and in this respect the two systems are not in conflict. P. 484.

(d) Nor is the patent policy that matter once in the public domain must remain there incompatible with the existence of trade secret protection. P. 484.

(e) Nor is there any conflict between trade secret law and the patent policy of disclosure whether a trade secret concerning patentable subject matter is in the category of discovery which is (1) clearly unpatentable, (2) doubtfully patentable, or (3) clearly patentable. As to the first category, the patent alternative is not available and trade secret law will encourage invention and prompt the inventor to proceed with the discovery and exploitation of his invention, and to license others to exploit secret processes. As to the second category, the risk and cost of eventual patent invalidity may impel the inventor not to seek patent protection regardless of the existence of trade secret law, and the encouragement by the elimination of trade secret protection of patent applications by some with doubtfully patentable inventions is likely to have a deleterious effect on society and patent policy. As to the third category, trade secret law, which affords weaker protection than the patent laws, presents no reasonable risk of deterence from patent application. Pp. 484–491.

(f) There being no real possibility that trade secret law will conflict with federal patent policy, partial pre-emption as to clearly patentable inventions would not be appropriate and could well unnecessarily burden administration of trade secret law by States. Pp. 491–492.

478 F. 2d 1074, reversed and remanded for reinstatement of District Court Judgment.

BURGER, C. J., delivered the opinion of the Court, in which STEWART, WHITE, BLACKMUN, and REHNQUIST, JJ., joined. MARSHALL, J., filed an opinion concurring in the result, *post*, p. 493. DOUGLAS, J., filed a dissenting opinion, in which BRENNAN, J., joined, *post*, p. 495. POWELL, J., took no part in the decision of the case.

Erwin N. Griswold argued the cause for petitioner. With him on the brief were *Robert J. Hoerner, Barry L. Springel, Edward P. Troxell, Robert P. Mooney,* and *James A. Lucas.*

William C. McCoy, Jr., argued the cause and filed a brief for respondents.*

*Briefs of *amici curiae* urging reversal were filed by *Solicitor General Bork* and *Edmund W. Kitch* for the United States; by *Donald W. Banner, Thomas F. McWilliams, John C. Dorfman,* and

MR. CHIEF JUSTICE BURGER delivered the opinion of the Court.

We granted certiorari to resolve a question on which there is a conflict in the courts of appeals: whether state trade secret protection is pre-empted by operation of the federal patent law.[1] In the instant case the Court of Appeals for the Sixth Circuit held that there was pre-emption.[2] The Courts of Appeals for the Second, Fourth, Fifth, and Ninth Circuits have reached the opposite conclusion.[3]

Chesterfield Smith for the American Bar Assn.; by *Austin F. Canfield, Jr.*, *Maurice H. Klitzman*, *Francis C. Browne*, *Donald R. Dunner*, and *John T. Roberts* for the Bar Association of the District of Columbia; by *Walter A. Porter* and *Bruce Tittel* for the Ohio State Bar Assn.; by *Milton A. Smith*, *Marcus B. Finnegan*, *Douglas B. Henderson*, and *Kenneth E. Payne* for the Chamber of Commerce of the United States; by *John T. Kelton* and *George E. Frost* for the American Patent Law Assn.; by *Charles W. Bradley*, *Thomas P. Dowling*, *Edward Halle*, and *Willard R. Sprowls* for the New York Patent Law Assn.; by *Karl W. Flocks* and *Paul L. Gomory* for the Association for the Advancement of Invention & Innovation; by *Tom Arnold* and *Bill Durkee* for the Licensing Executives Society; by *Jeremiah D. Lambert* and *Robert J. DeGiacomo* for the Electronic Industries Assn.; by *Marx Leva*, *Lloyd Symington*, and *John S. Hoff* for the Manufacturing Chemists Assn.; by *Herman Foster* and *Edward M. Farrell* for the Budd Co.; by *James M. Clabault*, *Edward G. Fiorito*, and *Edward F. Langs* for Burroughs Corp.; by *Harold C. Hohbach* and *David J. Brezner* for Optical Coating Laboratory, Inc.; by *Irving M. Tullar* and *Grover M. Myers* for R. J. Reynolds Industries, Inc.; by *Patrick J. Schlesinger* for Rohr Industries, Inc.; and by *Van C. Wilks* for Southwire Co.

Briefs of *amici curiae* urging affirmance were filed by *Eric P. Schellin* for National Patent Council, Inc., et al., and by *Mary Helen Sears* and *Edward S. Irons* for SCM Corp.

[1] 414 U. S. 818 (1973).

[2] 478 F. 2d 1074 (1973).

[3] *Painton & Co.* v. *Bourns, Inc.*, 442 F. 2d 216 (CA2 1971); *Servo Corp. of America* v. *General Electric Co.*, 337 F. 2d 716 (CA4 1964), cert. denied, 383 U. S. 934 (1966); *Water Services, Inc.* v. *Tesco*

I

Harshaw Chemical Co., an unincorporated division of petitioner, is a leading manufacturer of a type of synthetic crystal which is useful in the detection of ionizing radiation. In 1949 Harshaw commenced research into the growth of this type crystal and was able to produce one less than two inches in diameter. By 1966, as the result of expenditures in excess of $1 million, Harshaw was able to grow a 17-inch crystal, something no one else had done previously. Harshaw had developed many processes, procedures, and manufacturing techniques in the purification of raw materials and the growth and encapsulation of the crystals which enabled it to accomplish this feat. Some of these processes Harshaw considers to be trade secrets.

The individual respondents are former employees of Harshaw who formed or later joined respondent Bicron. While at Harshaw the individual respondents executed, as a condition of employment, at least one agreement each, requiring them not to disclose confidential information or trade secrets obtained as employees of Harshaw. Bicron was formed in August 1969 to compete with Harshaw in the production of the crystals, and by April 1970, had grown a 17-inch crystal.

Petitioner brought this diversity action in United States District Court for the Northern District of Ohio seeking injunctive relief and damages for the misappropriation of trade secrets. The District Court, applying Ohio trade secret law, granted a permanent injunction against the disclosure or use by respondents of 20 of the 40 claimed trade secrets until such time as the trade secrets had

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Chemicals, Inc., 410 F. 2d 163 (CA5 1969); *Winston Research Corp.* v. *Minnesota Mining & Mfg. Co.*, 350 F. 2d 134 (CA9 1965); *Dekar Industries, Inc.* v. *Bissett-Berman Corp.*, 434 F. 2d 1304 (CA9 1970), cert. denied, 402 U. S. 945 (1971).

been released to the public, had otherwise generally become available to the public, or had been obtained by respondents from sources having the legal right to convey the information.

The Court of Appeals for the Sixth Circuit held that the findings of fact by the District Court were not clearly erroneous, and that it was evident from the record that the individual respondents appropriated to the benefit of Bicron secret information on processes obtained while they were employees at Harshaw. Further, the Court of Appeals held that the District Court properly applied Ohio law relating to trade secrets. Nevertheless, the Court of Appeals reversed the District Court, finding Ohio's trade secret law to be in conflict with the patent laws of the United States. The Court of Appeals reasoned that Ohio could not grant monopoly protection to processes and manufacturing techniques that were appropriate subjects for consideration under 35 U. S. C. § 101 for a federal patent but which had been in commercial use for over one year and so were no longer eligible for patent protection under 35 U. S. C. § 102 (b).

We hold that Ohio's law of trade secrets is not preempted by the patent laws of the United States, and, accordingly, we reverse.

II

Ohio has adopted the widely relied-upon definition of a trade secret found at Restatement of Torts § 757, comment *b* (1939). *B. F. Goodrich Co.* v. *Wohlgemuth*, 117 Ohio App. 493, 498, 192 N. E. 2d 99, 104 (1963); *W. R. Grace & Co.* v. *Hargadine*, 392 F. 2d 9, 14 (CA6 1968). According to the Restatement,

> "[a] trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not

> know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers." *Id.*, at 5.

The subject of a trade secret must be secret, and must not be of public knowledge or of a general knowledge in the trade or business. *B. F. Goodrich Co.* v. *Wohlgemuth, supra,* at 499, 192 N. E. 2d, at 104. *National Tube Co.* v. *Eastern Tube Co.,* 3 Ohio C. C. R. (n. s.) 459, 462 (1902), aff'd, 69 Ohio St. 560, 70 N. E. 1127 (1903). This necessary element of secrecy is not lost, however, if the holder of the trade secret reveals the trade secret to another "in confidence, and under an implied obligation not to use or disclose it." *Cincinnati Bell Foundry Co.* v. *Dodds,* 10 Ohio Dec. Reprint 154, 156, 19 Weekly L. Bull. 84 (Super. Ct. 1887). These others may include those of the holder's "employees to whom it is necessary to confide it, in order to apply it to the uses for which it is intended." *National Tube Co.* v. *Eastern Tube Co., supra,* at 462. Often the recipient of confidential knowledge of the subject of a trade secret is a licensee of its holder. See *Lear, Inc.* v. *Adkins,* 395 U. S. 653 (1969).

The protection accorded the trade secret holder is against the disclosure or unauthorized use of the trade secret by those to whom the secret has been confided under the express or implied restriction of nondisclosure or nonuse.[4] The law also protects the holder of a trade

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[4] Ohio Rev. Code Ann. § 1333.51 (C) (Supp. 1973) provides:

"No person, having obtained possession of an article representing a trade secret or access thereto with the owner's consent, shall convert such article to his own use or that of another person, or thereafter without the owner's consent make or cause to be made a copy of such article, or exhibit such article to another."

Ohio Rev. Code Ann. § 1333.99 (E) (Supp. 1973) provides:

"Whoever violates section 1333.51 of the Revised Code shall be

secret against disclosure or use when the knowledge is gained, not by the owner's volition, but by some "improper means," Restatement of Torts § 757 (a), which may include theft, wiretapping, or even aerial reconnaissance.[5] A trade secret, however, does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering, that is by starting with the known product and working backward to divine the process which aided in its development or manufacture.[6]

Novelty, in the patent law sense, is not required for a trade secret, *W. R. Grace & Co.* v. *Hargadine*, 392 F. 2d, at 14. "Quite clearly discovery is something less than invention." *A. O. Smith Corp.* v. *Petroleum Iron Works Co.*, 73 F. 2d 531, 538 (CA6 1934), modified to increase scope of injunction, 74 F. 2d 934 (1935). However, some novelty will be required if merely because that which does not possess novelty is usually known; secrecy, in the context of trade secrets, thus implies at least minimal novelty.[7]

The subject matter of a patent is limited to a "process, machine, manufacture, or composition of matter, or . . . improvement thereof," 35 U. S. C. § 101, which fulfills the three conditions of novelty and utility as articulated and defined in 35 U. S. C. §§ 101 and 102, and nonobvi-

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fined not more than five thousand dollars, imprisoned not less than one nor more than ten years, or both."

[5] *E. I. duPont deNemours & Co.* v. *Christopher*, 431 F. 2d 1012 (CA5 1970), cert. denied, 400 U. S. 1024 (1971). See generally Comment, Theft of Trade Secrets: The Need for a Statutory Solution, 120 U. Pa. L. Rev. 378 (1971).

[6] *National Tube Co.* v. *Eastern Tube Co.*, 3 Ohio C. C. R. (n. s.) 459, 462 (1902), aff'd, 69 Ohio St. 560, 70 N. E. 1127 (1903).

[7] See Comment, The *Stiffel* Doctrine and the Law of Trade Secrets, 62 Nw. U. L. Rev. 956, 969 (1968).

ousness, as set out in 35 U. S. C. § 103.[8] If an invention meets the rigorous statutory tests for the issuance of a patent, the patent is granted, for a period of 17

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[8] "§ 101. *Inventions patentable*

"Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

"§ 102. *Conditions for patentability; novelty and loss of right to patent*

"A person shall be entitled to a patent unless—

"(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

"(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

"(c) he has abandoned the invention, or

"(d) the invention was first patented or caused to be patented, or was the subject of an inventor's certificate, by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application for patent or inventor's certificate filed more than twelve months before the filing of the application in the United States, or

"(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or

"(f) he did not himself invent the subject matter sought to be patented, or

"(g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.

"§ 103. *Conditions for patentability; non-obvious subject matter*

"A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this

years, giving what has been described as the "right of exclusion," R. Ellis, Patent Assignments and Licenses § 4, p. 7 (2d ed. 1943).[8] This protection goes not only to copying the subject matter, which is forbidden under the Copyright Act, 17 U. S. C. § 1 *et seq.*, but also forbids independent creation.

III

The first issue we deal with is whether the States are forbidden to act at all in the area of protection of the kinds of intellectual property which may make up the subject matter of trade secrets.

Article I, § 8, cl. 8, of the Constitution grants to the Congress the power—

> "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . . ."

In the 1972 Term, in *Goldstein* v. *California*, 412 U. S. 546 (1973), we held that the cl. 8 grant of power to Congress was not exclusive and that, at least in the case of writings, the States were not prohibited from encouraging and protecting the efforts of those within their borders by

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title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made."

[8] Title 35 U. S. C. § 154 provides:

"Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, subject to the payment of issue fees as provided for in this title, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof."

appropriate legislation. The States could, therefore, protect against the unauthorized rerecording for sale of performances fixed on records or tapes, even though those performances qualified as "writings" in the constitutional sense and Congress was empowered to legislate regarding such performances and could pre-empt the area if it chose to do so. This determination was premised on the great diversity of interests in our Nation—the essentially nonuniform character of the appreciation of intellectual achievements in the various States. Evidence for this came from patents granted by the States in the 18th century. 412 U. S., at 557.

Just as the States may exercise regulatory power over writings so may the States regulate with respect to discoveries. States may hold diverse viewpoints in protecting intellectual property relating to invention as they do in protecting the intellectual property relating to the subject matter of copyright. The only limitation on the States is that in regulating the area of patents and copyrights they do not conflict with the operation of the laws in this area passed by Congress, and it is to that more difficult question we now turn.

IV

The question of whether the trade secret law of Ohio is void under the Supremacy Clause involves a consideration of whether that law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." *Hines* v. *Davidowitz*, 312 U. S. 52, 67 (1941). See *Florida Avocado Growers* v. *Paul*, 373 U. S. 132, 141 (1963). We stated in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225, 229 (1964), that when state law touches upon the area of federal statutes enacted pursuant to constitutional authority, "it is 'familiar doctrine' that the federal policy

'may not be set at naught, or its benefits denied' by the state law. *Sola Elec. Co.* v. *Jefferson Elec. Co.*, 317 U. S. 173, 176 (1942). This is true, of course, even if the state law is enacted in the exercise of otherwise undoubted state power."

The laws which the Court of Appeals in this case held to be in conflict with the Ohio law of trade secrets were the patent laws passed by the Congress in the unchallenged exercise of its clear power under Art. I, § 8, cl. 8, of the Constitution. The patent law does not explicitly endorse or forbid the operation of trade secret law. However, as we have noted, if the scheme of protection developed by Ohio respecting trade secrets "clashes with the objectives of the federal patent laws," *Sears, Roebuck & Co.* v. *Stiffel Co.*, *supra*, at 231, then the state law must fall. To determine whether the Ohio law "clashes" with the federal law it is helpful to examine the objectives of both the patent and trade secret laws.

The stated objective of the Constitution in granting the power to Congress to legislate in the area of intellectual property is to "promote the Progress of Science and useful Arts." The patent laws promote this progress by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development. The productive effort thereby fostered will have a positive effect on society through the introduction of new products and processes of manufacture into the economy, and the emanations by way of increased employment and better lives for our citizens. In return for the right of exclusion—this "reward for inventions," *Universal Oil Co.* v. *Globe Co.*, 322 U. S. 471, 484 (1944)—the patent laws impose upon the inventor a requirement of disclosure. To insure adequate and full disclosure so that upon the

expiration of the 17-year period "the knowledge of the invention enures to the people, who are thus enabled without restriction to practice it and profit by its use," *United States* v. *Dubilier Condenser Corp.*, 289 U. S. 178, 187 (1933), the patent laws require [10] that the patent application shall include a full and clear description of the invention and "of the manner and process of making and using it" so that any person skilled in the art may make and use the invention. 35 U. S. C. § 112. When a patent is granted and the information contained in it is circulated to the general public and those especially skilled in the trade, such additions to the general store of knowledge are of such importance to the public weal that the Federal Government is willing to pay the high price of 17 years of exclusive use for its disclosure, which disclosure, it is assumed, will stimulate ideas and the eventual development of further significant advances on the art. The Court has also articulated another policy of the patent law: that which is in the public domain cannot be removed therefrom by action of the States.

> "[F]ederal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent." *Lear, Inc.* v. *Adkins*, 395 U. S., at 668.

See also *Goldstein* v. *California*, 412 U. S., at 570–571; *Sears, Roebuck & Co.* v. *Stiffel Co.*, *supra*; *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U. S. 234, 237–238 (1964); *International News Service* v. *Associated Press*, 248 U. S. 215, 250 (1918) (Brandeis, J., dissenting).

The maintenance of standards of commercial ethics and the encouragement of invention are the broadly stated policies behind trade secret law. "The necessity of good faith and honest, fair dealing, is the very life

[10] 35 U. S. C. § 111.

and spirit of the commercial world." *National Tube Co.* v. *Eastern Tube Co.*, 3 Ohio C. C. R. (n. s.), at 462.[11] In *A. O. Smith Corp.* v. *Petroleum Iron Works Co.*, 73 F. 2d, at 539, the Court emphasized that even though a discovery may not be patentable, that does not

> "destroy the value of the discovery to one who makes it, or advantage the competitor who by unfair means, or as the beneficiary of a broken faith, obtains the desired knowledge without himself paying the price in labor, money, or machines expended by the discoverer."

In *Wexler* v. *Greenberg*, 399 Pa. 569, 578–579, 160 A. 2d 430, 434–435 (1960), the Pennsylvania Supreme Court noted the importance of trade secret protection to the subsidization of research and development and to increased economic efficiency within large companies through the dispersion of responsibilities for creative developments.[12]

Having now in mind the objectives of both the patent and trade secret law, we turn to an examination of the interaction of these systems of protection of intellectual property—one established by the Congress and the other by a State—to determine whether and under what circumstances the latter might constitute "too great an encroachment on the federal patent system to be tolerated." *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S., at 232.

As we noted earlier, trade secret law protects items which would not be proper subjects for consideration for patent protection under 35 U. S. C. § 101. As in the

[11] See also *Winston Research Corp.* v. *Minnesota Mining & Mfg. Co.*, 350 F. 2d, at 138.

[12] See also *Water Services, Inc.* v. *Tesco Chemicals, Inc.*, 410 F. 2d, at 171.

case of the recordings in *Goldstein* v. *California*, Congress, with respect to nonpatentable subject matter, "has drawn no balance; rather, it has left the area unattended, and no reason exists why the State should not be free to act." *Goldstein* v. *California, supra*, at 570 (footnote omitted).

Since no patent is available for a discovery, however useful, novel, and nonobvious, unless it falls within one of the express categories of patentable subject matter of 35 U. S. C. § 101, the holder of such a discovery would have no reason to apply for a patent whether trade secret protection existed or not. Abolition of trade secret protection would, therefore, not result in increased disclosure to the public of discoveries in the area of nonpatentable subject matter. Also, it is hard to see how the public would be benefited by disclosure of customer lists or advertising campaigns; in fact, keeping such items secret encourages businesses to initiate new and individualized plans of operation, and constructive competition results. This, in turn, leads to a greater variety of business methods than would otherwise be the case if privately developed marketing and other data were passed illicitly among firms involved in the same enterprise.

Congress has spoken in the area of those discoveries which fall within one of the categories of patentable subject matter of 35 U. S. C. § 101 and which are, therefore, of a nature that would be subject to consideration for a patent. Processes, machines, manufactures, compositions of matter and improvements thereof, which meet the tests of utility, novelty, and nonobviousness are entitled to be patented, but those which do not, are not. The question remains whether those items which are proper subjects for consideration for a patent may also have available the alternative protection accorded by trade secret law.

Certainly the patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invention. In this respect the two systems are not and never would be in conflict. Similarly, the policy that matter once in the public domain must remain in the public domain is not incompatible with the existence of trade secret protection. By definition a trade secret has not been placed in the public domain.[13]

The more difficult objective of the patent law to reconcile with trade secret law is that of disclosure, the *quid pro quo* of the right to exclude. *Universal Oil Co.* v. *Globe Co.*, 322 U. S., at 484. We are helped in this stage of the analysis by Judge Henry Friendly's opinion in *Painton & Co.* v. *Bourns, Inc.*, 442 F. 2d 216 (CA2 1971). There the Court of Appeals thought it useful, in determining whether inventors will refrain because of the existence of trade secret law from applying for patents, thereby depriving the public from learning of the invention, to distinguish between three categories of trade secrets:

> "(1) the trade secret believed by its owner to constitute a validly patentable invention; (2) the trade secret known to its owner not to be so patentable; and (3) the trade secret whose valid patentability is considered dubious." *Id.*, at 224.

Trade secret protection in each of these categories would run against breaches of confidence—the employee and licensee situations—and theft and other forms of industrial espionage.

As to the trade secret known not to meet the standards

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[13] An invention may be placed "in public use or on sale" within the meaning of 35 U. S. C. § 102 (b) without losing its secret character. *Painton & Co.* v. *Bourns, Inc.*, 442 F. 2d, at 224 n. 6; *Metallizing Engineering Co.* v. *Kenyon Bearing & Auto Parts Co.*, 153 F. 2d 516, 520 (CA2), cert. denied, 328 U. S. 840 (1946).

of patentability, very little in the way of disclosure would be accomplished by abolishing trade secret protection. As with trade secrets of nonpatentable subject matter, the patent alternative would not reasonably be available to the inventor. "There can be no public interest in stimulating developers of such [unpatentable] know-how to flood an overburdened Patent Office with applications [for] what they do not consider patentable." *Ibid.* The mere filing of applications doomed to be turned down by the Patent Office will bring forth no new public knowledge or enlightenment, since under federal statute and regulation patent applications and abandoned patent applications are held by the Patent Office in confidence and are not open to public inspection. 35 U. S. C. § 122; 37 CFR § 1.14 (b).

Even as the extension of trade secret protection to patentable subject matter that the owner knows will not meet the standards of patentability will not conflict with the patent policy of disclosure, it will have a decidedly beneficial effect on society. Trade secret law will encourage invention in areas where patent law does not reach, and will prompt the independent innovator to proceed with the discovery and exploitation of his invention. Competition is fostered and the public is not deprived of the use of valuable, if not quite patentable, invention.[14]

Even if trade secret protection against the faithless employee were abolished, inventive and exploitive effort in the area of patentable subject matter that did not meet the standards of patentability would continue, although at a reduced level. Alternatively with the effort that remained, however, would come an increase in the amount of self-help that innovative companies

[14] Doerfer, The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy, 80 Harv. L. Rev. 1432, 1454 (1967).

would employ. Knowledge would be widely dispersed among the employees of those still active in research. Security precautions necessarily would be increased, and salaries and fringe benefits of those few officers or employees who had to know the whole of the secret invention would be fixed in an amount thought sufficient to assure their loyalty.[15] Smaller companies would be placed at a distinct economic disadvantage, since the costs of this kind of self-help could be great, and the cost to the public of the use of this invention would be increased. The innovative entrepreneur with limited resources would tend to confine his research efforts to himself and those few he felt he could trust without the ultimate assurance of legal protection against breaches of confidence. As a result, organized scientific and technological research could become fragmented, and society, as a whole, would suffer.

Another problem that would arise if state trade secret protection were precluded is in the area of licensing others to exploit secret processes. The holder of a trade secret would not likely share his secret with a manufacturer who cannot be placed under binding legal obligation to pay a license fee or to protect the secret. The result would be to hoard rather than disseminate knowledge. *Painton & Co.* v. *Bourns, Inc.*, 442 F. 2d, at 223. Instead, then, of licensing others to use his invention and making the most efficient use of existing manufacturing and marketing structures within the industry, the trade secret holder would tend either to limit his utilization of the invention, thereby depriving the public of the maximum benefit of its use, or engage in the time-consuming and economically wasteful enterprise of

[15] See generally Wydick, Trade Secrets: Federal Preemption in Light of Goldstein and Kewanee (Part II—Conclusion), 56 J. Pat. Off. Soc. 4, 23–24 (1974).

constructing duplicative manufacturing and marketing mechanisms for the exploitation of the invention. The detrimental misallocation of resources and economic waste that would thus take place if trade secret protection were abolished with respect to employees or licensees cannot be justified by reference to any policy that the federal patent law seeks to advance.

Nothing in the patent law requires that States refrain from action to prevent industrial espionage. In addition to the increased costs for protection from burglary, wiretapping, bribery, and the other means used to misappropriate trade secrets, there is the inevitable cost to the basic decency of society when one firm steals from another. A most fundamental human right, that of privacy, is threatened when industrial espionage is condoned or is made profitable;[16] the state interest in denying profit to such illegal ventures is unchallengeable.

The next category of patentable subject matter to deal with is the invention whose holder has a legitimate doubt as to its patentability. The risk of eventual patent invalidity by the courts and the costs associated with that risk may well impel some with a good-faith doubt as to patentability not to take the trouble to seek to obtain and defend patent protection for their discoveries, regardless of the existence of trade secret protection. Trade secret protection would assist those inventors in the more efficient exploitation of their discoveries and not conflict with the patent law. In most cases of genuine doubt as to patent validity the potential rewards of patent protection are so far superior to those accruing to holders of trade secrets, that the holders of

[16] Note, Patent Preemption of Trade Secret Protection of Inventions Meeting Judicial Standards of Patentability, 87 Harv. L. Rev. 807, 828 (1974).

such inventions will seek patent protection, ignoring the trade secret route. For those inventors "on the line" as to whether to seek patent protection, the abolition of trade secret protection might encourage some to apply for a patent who otherwise would not have done so. For some of those so encouraged, no patent will be granted and the result

> "will have been an unnecessary postponement in the divulging of the trade secret to persons willing to pay for it. If [the patent does issue], it may well be invalid, yet many will prefer to pay a modest royalty than to contest it, even though *Lear* allows them to accept a license and pursue the contest without paying royalties while the fight goes on. The result in such a case would be unjustified royalty payments from many who would prefer not to pay them rather than agreed fees from one or a few who are entirely willing to do so." *Painton & Co.* v. *Bourns, Inc.*, 442 F. 2d, at 225.

The point is that those who might be encouraged to file for patents by the absence of trade secret law will include inventors possessing the chaff as well as the wheat. Some of the chaff—the nonpatentable discoveries—will be thrown out by the Patent Office, but in the meantime society will have been deprived of use of those discoveries through trade secret-protected licensing. Some of the chaff may not be thrown out. This Court has noted the difference between the standards used by the Patent Office and the courts to determine patentability. *Graham* v. *John Deere Co.*, 383 U. S. 1, 18 (1966).[17] In *Lear, Inc.* v. *Adkins*, *supra*, the Court thought that an invalid patent was so serious a threat to the free use of ideas already

[17] For a possible explanation see P. Areeda, Antitrust Analysis ¶ 406 (d), pp. 327–328 (1967).

in the public domain that the Court permitted licensees of the patent holder to challenge the validity of the patent. Better had the invalid patent never been issued. More of those patents would likely issue if trade secret law were abolished. Eliminating trade secret law for the doubtfully patentable invention is thus likely to have deleterious effects on society and patent policy which we cannot say are balanced out by the speculative gain which might result from the encouragement of some inventors with doubtfully patentable inventions which deserve patent protection to come forward and apply for patents. There is no conflict, then, between trade secret law and the patent law policy of disclosure, at least insofar as the first two categories of patentable subject matter are concerned.

The final category of patentable subject matter to deal with is the clearly patentable invention, *i. e.*, that invention which the owner believes to meet the standards of patentability. It is here that the federal interest in disclosure is at its peak; these inventions, novel, useful and nonobvious, are " 'the things which are worth to the public the embarrassment of an exclusive patent.' " *Graham* v. *John Deere Co., supra,* at 9 (quoting Thomas Jefferson). The interest of the public is that the bargain of 17 years of exclusive use in return for disclosure be accepted. If a State, through a system of protection, were to cause a substantial risk that holders of patentable inventions would not seek patents, but rather would rely on the state protection, we would be compelled to hold that such a system could not constitutionally continue to exist. In the case of trade secret law no reasonable risk of deterrence from patent application by those who can reasonably expect to be granted patents exists.

Trade secret law provides far weaker protection in

many respects than the patent law.[18] While trade secret law does not forbid the discovery of the trade secret by fair and honest means, *e. g.*, independent creation or reverse engineering, patent law operates "against the world," forbidding any use of the invention for whatever purpose for a significant length of time. The holder of a trade secret also takes a substantial risk that the secret will be passed on to his competitors, by theft or by breach of a confidential relationship, in a manner not easily susceptible of discovery or proof. *Painton & Co.* v. *Bourns, Inc.*, 442 F. 2d, at 224. Where patent law acts as a barrier, trade secret law functions relatively as a sieve. The possibility that an inventor who believes his invention meets the standards of patentability will sit back, rely on trade secret law, and after one year of use forfeit any right to patent protection, 35 U. S. C. § 102 (b), is remote indeed.

Nor does society face much risk that scientific or technological progress will be impeded from the rare inventor with a patentable invention who chooses trade secret protection over patent protection. The ripeness of time concept of invention, developed from the study of the many independent multiple discoveries in history, predicts that if a particular individual had not made a particular discovery others would have, and in probably a relatively short period of time. If something is to be discovered at all very likely it will be discovered by more than one person. Singletons and Multiples in Science (1961), in R. Merton, The Sociology of Science 343 (1973); J. Cole & S. Cole, Social Stratification in Science 12–13, 229–230 (1973); Ogburn & Thomas, Are Inventions Inevitable?, 37 Pol. Sci. Q. 83 (1922).[19] Even

[18] *Water Services, Inc.* v. *Tesco Chemicals, Inc.*, 410 F. 2d, at 172.

[19] See J. Watson, The Double Helix (1968). If Watson and Crick had not discovered the structure of DNA it is likely that Linus

were an inventor to keep his discovery completely to himself, something that neither the patent nor trade secret laws forbid, there is a high probability that it will be soon independently developed. If the invention, though still a trade secret, is put into public use, the competition is alerted to the existence of the inventor's solution to the problem and may be encouraged to make an extra effort to independently find the solution thus known to be possible. The inventor faces pressures not only from private industry, but from the skilled scientists who work in our universities and our other great publicly supported centers of learning and research.

We conclude that the extension of trade secret protection to clearly patentable inventions does not conflict with the patent policy of disclosure. Perhaps because trade secret law does not produce any positive effects in the area of clearly patentable inventions, as opposed to the beneficial effects resulting from trade secret protection in the areas of the doubtfully patentable and the clearly unpatentable inventions, it has been suggested that partial pre-emption may be appropriate, and that courts should refuse to apply trade secret protection to inventions which the holder should have patented, and which would have been, thereby, disclosed.[20] However, since there is no real possibility that trade secret law will conflict with the federal policy favoring disclosure of clearly patentable inventions partial pre-emption is inappropri-

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Pauling would have made the discovery soon. Other examples of multiple discovery are listed at length in the Ogburn and Thomas article.

[20] See Note, Patent Preemption of Trade Secret Protection of Inventions Meeting Judicial Standards of Patentability, 87 Harv. L. Rev. 807 (1974); Brief for the United States as *Amicus Curiae*, presenting the view within the Government favoring limited pre-emption (which view is not that of the United States, which believes that patent law does not pre-empt state trade secret law).

ate. Partial pre-emption, furthermore, could well create serious problems for state courts in the administration of trade secret law. As a preliminary matter in trade secret actions, state courts would be obliged to distinguish between what a reasonable inventor would and would not correctly consider to be clearly patentable, with the holder of the trade secret arguing that the invention was not patentable and the misappropriator of the trade secret arguing its undoubted novelty, utility, and non-obviousness. Federal courts have a difficult enough time trying to determine whether an invention, narrowed by the patent application procedure [21] and fixed in the specifications which describe the invention for which the patent has been granted, is patentable.[22] Although state courts in some circumstances must join federal courts in judging whether an issued patent is valid, *Lear, Inc.* v. *Adkins, supra,* it would be undesirable to impose the almost impossible burden on state courts to determine the patentability—in fact and in the mind of a reasonable inventor—of a discovery which has not been patented and remains entirely uncircumscribed by expert analysis in the administrative process. Neither complete nor partial pre-emption of state trade secret law is justified.

Our conclusion that patent law does not pre-empt trade secret law is in accord with prior cases of this Court. *Universal Oil Co.* v. *Globe Co.*, 322 U. S., at 484; *United States* v. *Dubilier Condenser Corp.*, 289 U. S., at 186–187; *Becher* v. *Contoure Laboratories*, 279 U. S. 388, 391 (1929); *Du Pont Powder Co.* v. *Masland*, 244 U. S. 100, 102 (1917); *Dr. Miles Medical Co.* v. *Park & Sons Co.*, 220 U. S. 373, 402–403 (1911); *Board of Trade* v. *Christie*

[21] See P. Areeda, Antitrust Analysis ¶ 407, p. 329 (1967).

[22] See Judge L. Hand's lament in *Harries* v. *Air King Products Co.*, 183 F. 2d 158, 162 (CA2 1950).

Grain & Stock Co., 198 U. S. 236, 250–251 (1905).[22] Trade secret law and patent law have co-existed in this country for over one hundred years. Each has its particular role to play, and the operation of one does not take away from the need for the other. Trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement of the Nation. Trade secret law promotes the sharing of knowledge, and the efficient operation of industry; it permits the individual inventor to reap the rewards of his labor by contracting with a company large enough to develop and exploit it. Congress, by its silence over these many years, has seen the wisdom of allowing the States to enforce trade secret protection. Until Congress takes affirmative action to the contrary, States should be free to grant protection to trade secrets.

Since we hold that Ohio trade secret law is not preempted by the federal patent law, the judgment of the Court of Appeals for the Sixth Circuit is reversed and the case is remanded to the Court of Appeals with directions to reinstate the judgment of the District Court.

It is so ordered.

MR. JUSTICE POWELL took no part in the decision of this case.

MR. JUSTICE MARSHALL, concurring in the result.

Unlike the Court, I do not believe that the possibility that an inventor with a patentable invention will rely

[22] The Court of Appeals below relied, in part, on *Kendall* v. *Winsor*, 21 How. 322 (1859), a case decided nine years before trade secret law was imported into this country from England by means of the landmark case of *Peabody* v. *Norfolk*, 98 Mass. 452 (1868).

on state trade secret law rather than apply for a patent is "remote indeed." *Ante*, at 490. State trade secret law provides substantial protection to the inventor who intends to use or sell the invention himself rather than license it to others, protection which in its unlimited duration is clearly superior to the 17-year monopoly afforded by the patent laws. I have no doubt that the existence of trade secret protection provides in some instances a substantial disincentive to entrance into the patent system, and thus deprives society of the benefits of public disclosure of the invention which it is the policy of the patent laws to encourage. This case may well be such an instance.

But my view of sound policy in this area does not dispose of this case. Rather, the question presented in this case is whether Congress, in enacting the patent laws, intended merely to offer inventors a limited monopoly in exchange for disclosure of their invention, or instead to exert pressure on inventors to enter into this exchange by withdrawing any alternative possibility of legal protection for their inventions. I am persuaded that the former is the case. State trade secret laws and the federal patent laws have co-existed for many, many years. During this time, Congress has repeatedly demonstrated its full awareness of the existence of the trade secret system, without any indication of disapproval. Indeed, Congress has in a number of instances given explicit federal protection to trade secret information provided to federal agencies. See, *e. g.*, 5 U. S. C. § 552 (b)(4); 18 U. S. C. § 1905; see generally Appendix to Brief for Petitioner. Because of this, I conclude that there is "neither such actual conflict between the two schemes of regulation that both cannot stand in the same area, nor evidence of a congressional design to pre-empt the field." *Florida Lime & Avocado Growers* v. *Paul*,

373 U. S. 132, 141 (1963). I therefore concur in the result reached by the majority of the Court.

MR. JUSTICE DOUGLAS, with whom MR. JUSTICE BRENNAN concurs, dissenting.

Today's decision is at war with the philosophy of *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225, and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U. S. 234. Those cases involved patents—one of a pole lamp and one of fluorescent lighting fixtures each of which was declared invalid. The lower courts held, however, that though the patents were invalid the sale of identical or confusingly similar products to the products of the patentees violated state unfair competition laws. We held that when an article is unprotected by a patent, state law may not forbid others to copy it, because every article not covered by a valid patent is in the public domain. Congress in the patent laws decided that where no patent existed, free competition should prevail; that where a patent is rightfully issued, the right to exclude others should obtain for no longer than 17 years, and that the States may not "under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws,"[1] 376 U. S., at 231.

The product involved in this suit, sodium iodide synthetic crystals, was a product that could be patented but was not. Harshaw the inventor apparently contributed greatly to the technology in that field by developing processes, procedures, and techniques that produced

[1] Here as in *Lear, Inc.* v. *Adkins*, 395 U. S. 653, 674, which held that a licensee of a patent is not precluded by a contract from challenging the patent, for if he were, that would defeat the policy of the patent laws: "enforcing this contractual provision would undermine the strong federal policy favoring the full and free use of ideas in the public domain."

much larger crystals than any competitor. These processes, procedures, and techniques were also patentable; but no patent was sought. Rather Harshaw sought to protect its trade secrets by contracts with its employees. And the District Court found that, as a result of those secrecy precautions, "not sufficient disclosure occurred so as to place the claimed trade secrets in the public domain"; and those findings were sustained by the Court of Appeals.

The District Court issued a permanent injunction against respondents, ex-employees, restraining them from using the processes used by Harshaw. By a patent which would require full disclosure Harshaw could have obtained a 17-year monopoly against the world. By the District Court's injunction, which the Court approves and reinstates, Harshaw gets a permanent injunction running into perpetuity against respondents. In *Sears*, as in the present case, an injunction against the unfair competitor issued. We said: "To allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public. The result would be that while federal law grants only 14 or 17 years' protection to genuine inventions, see 35 U. S. C. §§ 154, 173, States could allow perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards. This would be too great an encroachment on the federal patent system to be tolerated." 376 U. S., at 231–232.

The conflict with the patent laws is obvious. The decision of Congress to adopt a patent system was based on the idea that there will be much more innovation if discoveries are disclosed and patented than there will be when everyone works in secret. Society thus fosters a

free exchange of technological information at the cost of a limited 17-year monopoly.[2]

A trade secret,[3] unlike a patent, has no property dimension. That was the view of the Court of Appeals, 478 F. 2d 1074, 1081; and its decision is supported by what Mr. Justice Holmes said in *Du Pont Powder Co.* v. *Masland*, 244 U. S. 100, 102:

> "The word property as applied to trade-marks and trade secrets is an unanalyzed expression of certain

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[2] "The holding [of the Court of Appeals] in *Kewanee* seems correct. If it is permissible for an inventor to use the law of unfair competition as a substitute for patenting, certain categories of inventions would receive privileged protection under that law. Thus a new laser, television set, or airplane could not be protected because inventions which by their nature cannot be put into commercial use without disclosure, are not eligible for trade secret protection after they are put on the market. Those that can be maintained are eligible. But as the basic economic function of the patent system is to encourage the making and commercialization of inventions, there seems to be no justification for providing incentives beyond those provided by the patent law to discriminate between different categories of inventions, i. e., those that may inherently be kept secret and those that may not. Moreover, state rules which would grant such incentives seem to conflict with the economic *quid pro quo* underlying patent protection; i. e., a monopoly limited in time, in return for full disclosure of the invention. Thus federal law has struck a balance between incentives for inventors and the public's right to a competitive economy. In this sense, the patent law is an integral part of federal competitive policy." Adelman, Secrecy and Patenting: Some Proposals for Resolving the Conflict, 1 APLA Quarterly Journal, No. 4, pp. 296, 298–299 (1973).

[3] Trade secrets often are unpatentable. In that event there is no federal policy which is contravened when an injunction to bar disclosure of a trade secret is issued. Moreover, insofar as foreign patents are involved our federal patent policy is obviously irrelevant. S. Oppenheim, Unfair Trade Practices 264–265 (2d ed. 1965). As respects further contrasts between patents and trade secrets see Milgrim, Trade Secret Protection and Licensing, 4 Pat. L. Rev. 375 (1972).

secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs, or one of them. These have given place to hostility, and the first thing to be made sure of is that the defendant shall not fraudulently abuse the trust reposed in him. It is the usual incident of confidential relations. If there is any disadvantage in the fact that he knew the plaintiffs' secrets he must take the burden with the good." [4]

A suit to redress theft of a trade secret is grounded in tort damages for breach of a contract—a historic remedy, *Cataphote Corp.* v. *Hudson*, 422 F. 2d 1290. Damages for breach of a confidential relation is not pre-empted by this patent law, but an injunction

[4] As to *Goldstein* v. *California*, 412 U. S. 546, the ruling of Mr. Justice Bradley concerning the distinction between patents and copyright is relevant:

"The difference between the two things, letters-patent and copyright, may be illustrated by reference to the subjects just enumerated. Take the case of medicines. Certain mixtures are found to be of great value in the healing art. If the discoverer writes and publishes a book on the subject (as regular physicians generally do), he gains no exclusive right to the manufacture and sale of the medicine; he gives that to the public. If he desires to acquire such exclusive right, he must obtain a patent for the mixture as a new art, manufacture, or composition of matter. He may copyright his book, if he pleases; but that only secures to him the exclusive right of printing and publishing his book. So of all other inventions or discoveries." *Baker* v. *Selden*, 101 U. S. 99, 102–103.

against use is pre-empted because the patent law states the only monopoly over trade secrets that is enforceable by specific performance; and that monopoly exacts as a price full disclosure. A trade secret can be protected only by being kept secret. Damages for breach of a contract are one thing; an injunction barring disclosure does service for the protection accorded valid patents and is therefore pre-empted.

From the findings of fact of the lower courts, the process involved in this litigation was unique, such a great discovery as to make its patentability a virtual certainty. Yet the Court's opinion reflects a vigorous activist anti-patent philosophy. My objection is not because it is activist. This is a problem that involves no neutral principle. The Constitution in Art. I, § 8, cl. 8, expresses the activist policy which Congress has enforced by statutes. It is that constitutional policy which we should enforce, not our individual notions of the public good.

I would affirm the judgment below.